

FINANCIAL STATEMENTS

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INTERNATIONALLY DIVERSIFIED | SUSTAINABLE GROWTH AND INCOME

VERMILION
ENERGY



DISCLAIMER

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

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

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

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

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	June 30, 2016	December 31, 2015
ASSETS			
Current			
Cash and cash equivalents		5,195	41,676
Accounts receivable		163,256	160,499
Crude oil inventory		19,585	13,079
Derivative instruments		21,600	55,214
Prepaid expenses		19,611	14,310
		229,247	284,778
Derivative instruments		4,543	13,128
Deferred taxes	6	134,747	135,753
Exploration and evaluation assets	3	294,252	308,192
Capital assets	2	3,281,996	3,467,369
		3,944,785	4,209,220
LIABILITIES			
Current			
Accounts payable and accrued liabilities		221,023	248,747
Current portion of long-term debt	5	-	224,901
Dividends payable	7	24,976	24,077
Derivative instruments		11,568	-
Income taxes payable		21,264	6,006
		278,831	503,731
Derivative instruments		9,615	-
Long-term debt	5	1,349,366	1,162,998
Finance lease obligation		22,600	23,565
Asset retirement obligations	4	329,132	305,613
Deferred taxes		321,881	354,654
		2,311,425	2,350,561
SHAREHOLDERS' EQUITY			
Shareholders' capital	7	2,355,311	2,181,089
Contributed surplus		69,576	107,946
Accumulated other comprehensive income		44,791	113,647
Deficit		(836,318)	(544,023)
		1,633,360	1,858,659
		3,944,785	4,209,220

APPROVED BY THE BOARD

(*"Catherine L. Williams"*)

Catherine L. Williams, Director

(*"Anthony Marino"*)

Anthony Marino, Director

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

	Note	Three Months Ended		Six Months Ended	
		June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
REVENUE					
Petroleum and natural gas sales		212,855	264,331	390,240	460,216
Royalties		(12,355)	(16,111)	(26,316)	(32,535)
Petroleum and natural gas revenue		200,500	248,220	363,924	427,681
EXPENSES					
Operating		52,116	58,616	107,744	102,467
Transportation		9,860	10,883	20,250	20,423
Equity based compensation	8	13,267	17,886	34,104	36,926
Loss (gain) on derivative instruments		50,935	(7,186)	13,458	6,527
Interest expense		13,647	14,550	28,397	27,848
General and administration		15,493	14,505	29,070	28,065
Foreign exchange loss (gain)		1,475	(2,291)	557	(752)
Other (income) expense		(42)	-	(60)	(31,736)
Accretion	4	6,025	5,713	12,134	11,388
Depletion and depreciation	2, 3	131,793	111,146	257,591	202,103
Impairment	2	-	-	14,762	-
		294,569	223,822	518,007	403,259
(LOSS) EARNINGS BEFORE INCOME TAXES		(94,069)	24,398	(154,083)	24,422
INCOME TAXES					
Deferred	6	(44,081)	(3,130)	(21,535)	(24,358)
Current		5,708	20,715	8,996	40,692
		(38,373)	17,585	(12,539)	16,334
NET (LOSS) EARNINGS		(55,696)	6,813	(141,544)	8,088
OTHER COMPREHENSIVE (LOSS) INCOME					
Currency translation adjustments		(41,526)	27,543	(68,856)	(12,591)
COMPREHENSIVE (LOSS) INCOME		(97,222)	34,356	(210,400)	(4,503)
NET (LOSS) EARNINGS PER SHARE					
Basic		(0.48)	0.06	(1.24)	0.07
Diluted		(0.48)	0.06	(1.24)	0.07
WEIGHTED AVERAGE SHARES OUTSTANDING ('000s)					
Basic		115,366	109,319	114,046	108,421
Diluted		115,366	110,746	114,046	109,792

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

		Three Months Ended		Six Months Ended	
	Note	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
OPERATING					
Net (loss) earnings		(55,696)	6,813	(141,544)	8,088
Adjustments:					
Accretion	4	6,025	5,713	12,134	11,388
Depletion and depreciation	2, 3	131,793	111,146	257,591	202,103
Impairment	2	-	-	14,762	-
Unrealized loss (gain) on derivative instruments		72,436	(4,105)	63,382	15,865
Equity based compensation		13,267	17,886	34,104	36,926
Unrealized foreign exchange loss (gain)		2,804	(5,031)	1,234	(186)
Unrealized other expense		20	204	107	465
Deferred taxes	6	(44,081)	(3,130)	(21,535)	(24,358)
Asset retirement obligations settled	4	(2,200)	(1,218)	(4,224)	(4,325)
Changes in non-cash operating working capital		(720)	6,390	(18,480)	(88,651)
Cash flows from operating activities		123,648	134,668	197,531	157,315
INVESTING					
Drilling and development	2	(71,296)	(90,173)	(134,069)	(264,484)
Exploration and evaluation	3	(418)	-	(418)	-
Property acquisitions	2, 3	(8,550)	(480)	(9,420)	(515)
Changes in non-cash investing working capital		1,477	(39,305)	(2,610)	(27,162)
Cash flows used in investing activities		(78,787)	(129,958)	(146,517)	(292,161)
FINANCING					
(Decrease) increase in long-term debt		(77,893)	32,947	191,667	187,861
Repayment of senior unsecured notes	5	-	-	(225,000)	-
Decrease in finance lease obligation		(998)	-	(1,893)	-
Cash dividends		(23,562)	(28,226)	(48,104)	(76,149)
Cash flows (used in) from financing activities		(102,453)	4,721	(83,330)	111,712
Foreign exchange (loss) gain on cash held in foreign currencies		(459)	415	(4,165)	767
Net change in cash and cash equivalents		(58,051)	9,846	(36,481)	(22,367)
Cash and cash equivalents, beginning of period		63,246	88,192	41,676	120,405
Cash and cash equivalents, end of period		5,195	98,038	5,195	98,038
Supplementary information for cash flows from operating activities					
Interest paid		19,414	12,510	40,725	30,755
Income taxes (refunded) paid		(7,869)	(11,685)	(5,479)	58,828

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

	Note	Six Months Ended	
		June 30, 2016	June 30, 2015
SHAREHOLDERS' CAPITAL			
Balance, beginning of period		2,181,089	1,959,021
Equity based compensation	8	5,328	816
Shares issued for the DRIP ⁽¹⁾		98,506	63,679
Vesting of equity based awards		67,146	56,855
Share-settled dividends on vested equity based awards		3,242	7,561
Balance, end of period	7	2,355,311	2,087,932
CONTRIBUTED SURPLUS			
Balance, beginning of period		107,946	92,188
Equity based compensation	8	28,776	36,110
Vesting of equity based awards		(67,146)	(56,855)
Balance, end of period		69,576	71,443
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Balance, beginning of period		113,647	5,722
Currency translation adjustments		(68,856)	(12,591)
Balance, end of period		44,791	(6,869)
DEFICIT			
Balance, beginning of period		(544,023)	(35,585)
Net (loss) earnings		(141,544)	8,088
Dividends declared	7	(147,509)	(140,366)
Share-settled dividends on vested equity based awards		(3,242)	(7,561)
Balance, end of period		(836,318)	(175,424)
TOTAL SHAREHOLDERS' EQUITY		1,633,360	1,977,082

⁽¹⁾ DRIP Refers to Vermilion's dividend reinvestment and Premium Dividend™ plans.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 AND 2015****(TABULAR AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE AND PER SHARE AMOUNTS, UNAUDITED)****1. BASIS OF PRESENTATION**

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

These condensed consolidated interim financial statements are in compliance with International Accounting Standard ("IAS") 34, "Interim financial reporting" 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, 2015.

These condensed consolidated interim financial statements should be read in conjunction with Vermilion's consolidated financial statements for the year ended December 31, 2015, which are contained within Vermilion's Annual Report for the year ended December 31, 2015 and are available on SEDAR at www.sedar.com or on Vermilion's website at www.vermillionenergy.com.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of Vermilion on August 4, 2016.

2. CAPITAL ASSETS

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

(\$M)	Capital Assets
Balance at December 31, 2015	3,467,369
Additions	134,069
Property acquisitions	7,098
Changes in estimate for asset retirement obligations	25,856
Depletion and depreciation	(246,834)
Recognition of finance lease asset	1,612
Impairment	(14,762)
Foreign exchange	(92,412)
Balance at June 30, 2016	3,281,996

Impairment

On a quarterly basis, Vermilion performs an assessment as to whether any cash generating units ("CGUs") have indicators of impairment. When indicators of impairment are identified, Vermilion assesses the recoverable amount of the applicable CGU based on the higher of the estimated fair value less costs to sell and value in use as at the reporting date. The estimated recoverable amount takes into account commodity price forecasts, expected production, estimated costs and timing of development, and undeveloped land values.

As a result of declines in the European natural gas price forecast, which decreased expected cash flows, Vermilion recorded a non-cash impairment charge of \$14.8 million in the Ireland segment for the six months ended June 30, 2016. The recoverable amount of the CGU was determined using a value in use approach based on forecasted reserves and expected cash flows and an after-tax discount rate of 9%.

The determination of impairment is sensitive to changes in key judgments, including reserve revisions, changes in forward commodity prices and exchange rates, and changes in costs and timing of development. Changes in these key judgments would impact the recoverable amount of CGUs, therefore resulting in additional impairment charges or recoveries. For the six months ended June 30, 2016, a one percent increase in the assumed discount rate on expected cash flows of the Ireland CGU would result in an additional impairment of \$25.6 million, and a five percent decrease in forward commodity prices would result in an additional impairment of \$39.6 million.

The following table outlines the forward commodity price estimates that were used in the calculation of the recoverable amount:

Forward Commodity Price Assumptions ⁽¹⁾										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 ⁽²⁾
NBP (€/mmbtu)	4.49	5.11	5.78	6.18	6.30	6.44	6.55	6.68	6.80	6.91

⁽¹⁾ Source: Average of GLJ Petroleum Consultants and Sproule price forecasts, effective July 1, 2016.

⁽²⁾ Escalated at 1.75% per year thereafter.

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 December 31, 2015	308,192
Additions	418
Changes in estimate for asset retirement obligations	17
Property acquisitions	2,322
Depreciation	(14,526)
Foreign exchange	(2,171)
Balance at June 30, 2016	294,252

4. ASSET RETIREMENT OBLIGATIONS

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

(\$M)	Asset Retirement Obligations
Balance at December 31, 2015	305,613
Additional obligations recognized	223
Obligations settled	(4,224)
Accretion	12,134
Changes in discount rates	25,650
Foreign exchange	(10,264)
Balance at June 30, 2016	329,132

5. LONG-TERM DEBT

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

(\$M)	As at	
	Jun 30, 2016	Dec 31, 2015
Revolving credit facility	1,349,366	1,162,998
Senior unsecured notes ⁽¹⁾	-	224,901
Long-term debt	1,349,366	1,387,899

⁽¹⁾ The senior unsecured notes, which had a principal balance of \$225.0 million and matured and were repaid on February 10, 2016, were included in the current portion of long-term debt as at December 31, 2015.

Revolving Credit Facility

At June 30, 2016, Vermilion had in place a bank revolving credit facility totalling \$2 billion, of which approximately \$1.35 billion was drawn. The facility, which matures on May 31, 2019, 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 four 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 six months ended June 30, 2016, the interest rate on the revolving credit facility was approximately 3.4% (2015 – 3.1%).

The amount available to Vermilion under this facility is reduced by certain outstanding letters of credit associated with Vermilion's operations totalling \$24.0 million as at June 30, 2016 (December 31, 2015 - \$25.2 million).

The facility is secured by various fixed and floating charges against the subsidiaries of Vermilion. As at June 30, 2016, Vermilion was in compliance with all financial covenants. These financial covenants required Vermilion to maintain:

- A ratio of total debt (defined as amounts classified as "Long-term debt", "Current portion of long term debt", and "Finance lease obligation" on the balance sheet), 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 total capitalization (defined as amounts classified as "Shareholders' equity" on the balance sheet plus consolidated total senior debt as defined above) of not greater than 55%.

6. DEFERRED INCOME TAXES

For the six months ended June 30, 2016, Vermilion de-recognized \$34.1 million (year ended December 31, 2015 - \$51.7 million) of deferred tax assets, relating to certain non-capital losses for which there is uncertainty as to the Company's ability to fully utilize such losses when applying forecasted commodity prices in effect as at June 30, 2016.

7. SHAREHOLDERS' CAPITAL

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

Shareholders' Capital	Number of Shares ('000s)	Amount (\$M)
Balance as at December 31, 2015	111,991	2,181,089
Shares issued for the DRIP	2,640	98,506
Vesting of equity based awards	1,320	67,146
Share-settled dividends on vested equity based awards	87	3,242
Shares issued for equity based compensation	135	5,328
Balance as at June 30, 2016	116,173	2,355,311

Dividends declared to shareholders for the six months ended June 30, 2016 were \$147.5 million (2015 - \$140.4 million).

Subsequent to the end of the period and prior to the condensed consolidated interim financial statements being authorized for issue, Vermilion declared dividends totalling \$25.1 million or \$0.215 per share.

8. EQUITY BASED COMPENSATION

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

Number of Awards ('000s)	2016
Opening balance	1,711
Granted	743
Vested	(628)
Modified	11
Forfeited	(105)
Closing balance	1,732

9. SEGMENTED INFORMATION

Vermilion's operating activities in each business unit 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 the Company's operating business units.

The following table shows the fund flows from operations generated by each of Vermilion's business units. Fund flows from operations is a measure of profit or loss regularly provided to Vermilion's chief operating decision maker. Fund flows from operations provides a measure of each business unit's profitability and, correspondingly, its ability to pay dividends, fund asset retirement obligations, and make capital investments.

(\$M)	Three Months Ended June 30, 2016								Total
	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	
Drilling and development	5,619	12,772	8,566	592	2,172	39,939	1,636	-	71,296
Exploration and evaluation	-	-	-	-	-	-	-	418	418
Oil and gas sales to external customers	61,731	61,591	23,973	6,280	23,360	33,713	2,207	-	212,855
Royalties	(3,770)	(6,564)	(396)	(964)	-	-	(661)	-	(12,355)
Revenue from external customers	57,961	55,027	23,577	5,316	23,360	33,713	1,546	-	200,500
Transportation	(3,759)	(3,476)	-	(1,051)	(1,574)	-	-	-	(9,860)
Operating	(16,460)	(11,265)	(4,306)	(2,506)	(5,177)	(12,100)	(302)	-	(52,116)
General and administration	(4,305)	(4,734)	(1,223)	(2,474)	(1,106)	(1,788)	(697)	834	(15,493)
PRRT	-	-	-	-	-	(144)	-	-	(144)
Corporate income taxes	-	(921)	(3,260)	-	-	(1,126)	-	(257)	(5,564)
Interest expense	-	-	-	-	-	-	-	(13,647)	(13,647)
Realized gain on derivative instruments	-	-	-	-	-	-	-	21,501	21,501
Realized foreign exchange gain	-	-	-	-	-	-	-	1,329	1,329
Realized other income	-	-	-	-	-	-	-	62	62
Fund flows from operations	33,437	34,631	14,788	(715)	15,503	18,555	547	9,822	126,568

(\$M)	Three Months Ended June 30, 2015								Total
	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	
Drilling and development	21,881	16,697	18,885	3,231	20,267	6,468	2,744	-	90,173
Oil and gas sales to external customers	91,284	81,627	23,913	10,626	-	56,204	677	-	264,331
Royalties	(5,768)	(6,620)	(1,294)	(2,238)	-	-	(191)	-	(16,111)
Revenue from external customers	85,516	75,007	22,619	8,388	-	56,204	486	-	248,220
Transportation	(4,469)	(3,526)	-	(1,240)	(1,648)	-	-	-	(10,883)
Operating	(21,534)	(12,102)	(5,414)	(1,373)	-	(18,083)	(110)	-	(58,616)
General and administration	(5,510)	(4,874)	(454)	(1,435)	(628)	(1,141)	(963)	500	(14,505)
PRRT	-	-	-	-	-	(3,371)	-	-	(3,371)
Corporate income taxes	-	(9,316)	(2,347)	-	-	(5,134)	-	(547)	(17,344)
Interest expense	-	-	-	-	-	-	-	(14,550)	(14,550)
Realized gain on derivative instruments	-	-	-	-	-	-	-	3,081	3,081
Realized foreign exchange loss	-	-	-	-	-	-	-	(2,740)	(2,740)
Realized other income	-	-	-	-	-	-	-	204	204
Fund flows from operations	54,003	45,189	14,404	4,340	(2,276)	28,475	(587)	(14,052)	129,496

8. SEGMENTED INFORMATION (Continued)

(\$M)	Six Months Ended June 30, 2016								Total
	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	
Total assets	1,542,342	811,724	180,403	152,627	809,690	263,723	52,651	131,625	3,944,785
Drilling and development	35,390	26,235	11,562	1,131	5,248	47,766	6,737	-	134,069
Exploration and evaluation	-	-	-	-	-	-	-	418	418
Oil and gas sales to external customers	117,841	109,716	51,259	13,972	40,364	53,648	3,440	-	390,240
Royalties	(9,268)	(13,330)	(856)	(1,831)	-	-	(1,031)	-	(26,316)
Revenue from external customers	108,573	96,386	50,403	12,141	40,364	53,648	2,409	-	363,924
Transportation	(7,910)	(7,189)	-	(1,938)	(3,213)	-	-	-	(20,250)
Operating	(37,803)	(25,585)	(10,282)	(5,099)	(8,803)	(19,591)	(581)	-	(107,744)
General and administration	(6,781)	(9,410)	(1,996)	(4,902)	(2,294)	(3,113)	(1,829)	1,255	(29,070)
PRRT	-	-	-	-	-	(272)	-	-	(272)
Corporate income taxes	-	(955)	(5,460)	-	-	(1,903)	-	(406)	(8,724)
Interest expense	-	-	-	-	-	-	-	(28,397)	(28,397)
Realized gain on derivative instruments	-	-	-	-	-	-	-	49,924	49,924
Realized foreign exchange gain	-	-	-	-	-	-	-	677	677
Realized other income	-	-	-	-	-	-	-	167	167
Fund flows from operations	56,079	53,247	32,665	202	26,054	28,769	(1)	23,220	220,235

(\$M)	Six Months Ended June 30, 2015								Total
	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	
Total assets	1,931,640	854,608	211,587	163,069	856,739	233,956	18,785	158,430	4,428,814
Drilling and development	136,730	50,811	23,218	4,199	33,222	12,923	3,381	-	264,484
Oil and gas sales to external customers	169,168	141,459	50,731	22,021	-	75,488	1,349	-	460,216
Royalties	(14,360)	(11,722)	(2,220)	(3,836)	-	-	(397)	-	(32,535)
Revenue from external customers	154,808	129,737	48,511	18,185	-	75,488	952	-	427,681
Transportation	(8,411)	(6,537)	-	(2,134)	(3,341)	-	-	-	(20,423)
Operating	(40,633)	(22,928)	(11,240)	(3,372)	-	(23,969)	(325)	-	(102,467)
General and administration	(9,525)	(9,985)	(1,191)	(3,043)	(1,140)	(2,595)	(2,043)	1,457	(28,065)
PRRT	-	-	-	-	-	(5,725)	-	-	(5,725)
Corporate income taxes	-	(23,597)	(4,735)	-	-	(5,711)	-	(924)	(34,967)
Interest expense	-	-	-	-	-	-	-	(27,848)	(27,848)
Realized gain on derivative instruments	-	-	-	-	-	-	-	9,338	9,338
Realized foreign exchange gain	-	-	-	-	-	-	-	566	566
Realized other income	-	31,775	-	-	-	-	-	426	32,201
Fund flows from operations	96,239	98,465	31,345	9,636	(4,481)	37,488	(1,416)	(16,985)	250,291

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

(\$M)	Three Months Ended		Six Months Ended	
	Jun 30, 2016	Jun 30, 2015	Jun 30, 2016	Jun 30, 2015
Fund flows from operations	126,568	129,496	220,235	250,291
Equity based compensation	(13,267)	(17,886)	(34,104)	(36,926)
Unrealized (loss) gain on derivative instruments	(72,436)	4,105	(63,382)	(15,865)
Unrealized foreign exchange (loss) gain	(2,804)	5,031	(1,234)	186
Unrealized other expense	(20)	(204)	(107)	(465)
Accretion	(6,025)	(5,713)	(12,134)	(11,388)
Depletion and depreciation	(131,793)	(111,146)	(257,591)	(202,103)
Deferred taxes	44,081	3,130	21,535	24,358
Impairment	-	-	(14,762)	-
Net (loss) earnings	(55,696)	6,813	(141,544)	8,088

10. CAPITAL DISCLOSURES

(\$M except as indicated)	Three Months Ended		Six Months Ended	
	Jun 30, 2016	Jun 30, 2015	Jun 30, 2016	Jun 30, 2015
Long-term debt	1,349,366	1,200,077	1,349,366	1,200,077
Current liabilities	278,831	479,848	278,831	479,848
Current assets	(229,247)	(302,023)	(229,247)	(302,023)
Net debt [1]	1,398,950	1,377,902	1,398,950	1,377,902
Fund flows from operations	126,568	129,496	220,235	250,291
Annualized fund flows from operations [2]	506,272	517,984	440,470	500,582
Ratio of net debt to annualized fund flows from operations $([1] \div [2])$	2.8	2.7	3.2	2.8

The ratio of net debt to annualized fund flows from operations increased to 3.2 times for the six months ended June 30, 2016 primarily as a result of declines in commodity prices, which decreased annualized fund flows from operations.

11. FINANCIAL INSTRUMENTS

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.

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.

Cash and cash equivalents are classified as Level 1 measurements. Cash and cash equivalents, receivables, and payables approximate their value due to the short-term nature of those instruments. The fair value of long-term debt on the revolving credit facility approximates carrying value due to the use of short-term borrowing instruments at market rates of interest.

Derivative assets and derivative liabilities are classified as Level 2 measurements. The fair value 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.

Vermilion does not have any financial instruments classified as Level 3 measurements.

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 derivatives. The following table summarizes the impact on comprehensive income before tax for the six months ended June 30, 2016 given changes in the relevant risk variables that Vermilion considers 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.

		Before tax effect on comprehensive income - increase (decrease)
Risk (\$M)	Description of change in risk variable	Jun 30, 2016
Currency risk - Euro to Canadian	5% increase in strength of the Canadian dollar against the Euro	(1,605)
	5% decrease in strength of the Canadian dollar against the Euro	1,605
Currency risk - US \$ to Canadian	5% increase in strength of the Canadian dollar against the US \$	(557)
	5% decrease in strength of the Canadian dollar against the US \$	557
Commodity price risk	US \$5.00/bbl increase in crude oil price used to determine the fair value of derivatives	(5,288)
	US \$5.00/bbl decrease in crude oil price used to determine the fair value of derivatives	5,288
	€ 0.5/GJ increase in European natural gas price used to determine the fair value of derivatives	(27,326)
	€ 0.5/GJ decrease in European natural gas price used to determine the fair value of derivatives	23,184
Interest rate risk	1% increase in average Canadian prime interest rate	(5,581)
	1% decrease in average Canadian prime interest rate	5,581

CORPORATE INFORMATION

DIRECTORS

Lorenzo Donadeo ¹
Calgary, Alberta

Larry J. Macdonald ^{2, 4, 5, 6}
Chairman & CEO, Point Energy Ltd.
Calgary, Alberta

Claudio A. Ghersinich ^{3, 6}
Executive Director, Carrera Investments Corp.
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Houston, Texas

William F. Madison ^{5, 6}
Sugar Land, Texas

Timothy R. Marchant ^{5, 6}
Calgary, Alberta

Anthony Marino
Calgary, Alberta

Sarah E. Raiss ^{4, 5}
Calgary, Alberta

Catherine L. Williams ^{3, 4}
Calgary, Alberta

¹ Chairman of the Board

² Lead Director

³ Audit Committee

⁴ Governance and Human Resources Committee

⁵ Health, Safety and Environment Committee

⁶ 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, condensate, natural gas liquids, and natural gas (converted on the basis of one boe for six mcf of natural gas)
boe/d	barrel of oil equivalent per day
btu	British thermal units
CGU	Cash generating unit, the basis upon which Vermilion's assets are evaluated for potential impairments
DRIP	Dividend Reinvestment Plan
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
mmbtu	million British thermal units
mmcf	million cubic feet
mmcf/d	million cubic feet per day
MWh	megawatt hour
NBP	the reference price paid for natural gas in the United Kingdom, quoted in pence per therm, at the National Balancing Point Virtual Trading Point operated by National Grid. Our production in Ireland is priced with reference to NBP.
NGLS	natural gas liquids, which includes butane, propane, and ethane
PRRT	Petroleum Resource Rent Tax, a profit based tax levied on petroleum projects in Australia
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

Anthony Marino
President & Chief Executive Officer

Curtis W. Hicks
Executive Vice President & Chief Financial Officer

Mona Jasinski
Executive Vice President, People and Culture

Michael Kaluza
Executive Vice President & Chief Operating Officer

Dion Hatcher
Vice President Canada Business Unit

Terry Hergott
Vice President Marketing

Daniel Goulet
Director Corporate HSE

Bryce Kremnica
Director Field Operations – Canada Business Unit

Kyle Preston
Director Investor Relations

Mike Prinz
Director Information Technology & Information Systems

Jenson Tan
Director Business Development

Robert (Bob) J. Engbloom
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
Vice President European Operations

Darcy Kerwin
Managing Director - France Business Unit

Scott Seatter
Managing Director - Netherlands Business Unit

Albrecht Moehring
Managing Director - Germany Business Unit

Bryan Sralla
Managing Director - Central & Eastern Europe Business Unit

AUSTRALIA

Bruce D. Lake
Managing Director - Australia Business Unit

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Deloitte LLP
Calgary, Alberta

BANKERS

The Toronto-Dominion Bank

Bank of Montreal

Canadian Imperial Bank of Commerce

National Bank of Canada

Royal Bank of Canada

The Bank of Nova Scotia

HSBC Bank Canada

La Caisse Centrale Desjardins du Québec

Wells Fargo Bank N.A., Canadian Branch

Alberta Treasury Branches

Bank of America N.A., Canada Branch

BNP Paribas, Canada Branch

Citibank N.A., Canadian Branch - Citibank Canada

Union Bank, Canada Branch

JPMorgan Chase Bank, N.A., Toronto Branch

Canadian Western Bank

Goldman Sachs Lending Partners LLC

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EXCELLENCE

We aim for exceptional results in everything we do.

TRUST

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

RESPECT

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

RESPONSIBILITY

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

VERMILION
E N E R G Y



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