

# FINANCIAL STATEMENTS

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DEFINED PRODUCTION GROWTH | RELIABLE & GROWING DIVIDENDS

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 SHEET**  
**(THOUSANDS OF CANADIAN DOLLARS, UNAUDITED)**

	Note	September 30, 2016	December 31, 2015
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		21,417	41,676
Accounts receivable		145,143	160,499
Crude oil inventory		12,166	13,079
Derivative instruments		20,138	55,214
Prepaid expenses		16,363	14,310
		215,227	284,778
Derivative instruments		3,991	13,128
Deferred taxes	6	147,682	135,753
Exploration and evaluation assets	3	281,839	308,192
Capital assets	2	3,266,678	3,467,369
		3,915,417	4,209,220
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		175,754	248,747
Current portion of long-term debt	5	-	224,901
Dividends payable	7	25,238	24,077
Derivative instruments		12,031	-
Income taxes payable		33,475	6,006
		246,498	503,731
Derivative instruments		6,806	-
Long-term debt	5	1,312,652	1,162,998
Finance lease obligation		21,357	23,565
Asset retirement obligations	4	344,008	305,613
Deferred taxes		335,159	354,654
		2,266,480	2,350,561
<b>SHAREHOLDERS' EQUITY</b>			
Shareholders' capital	7	2,407,595	2,181,089
Contributed surplus		83,846	107,946
Accumulated other comprehensive income		83,754	113,647
Deficit		(926,258)	(544,023)
		1,648,937	1,858,659
		3,915,417	4,209,220

**APPROVED BY THE BOARD**

(Signed "Catherine L. Williams")

Catherine L. Williams, Director

(Signed "Anthony Marino")

Anthony Marino, Director

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

	Note	Three Months Ended		Nine Months Ended	
		Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
<b>REVENUE</b>					
Petroleum and natural gas sales		232,660	245,051	622,900	705,267
Royalties		(12,969)	(17,100)	(39,285)	(49,635)
<b>Petroleum and natural gas revenue</b>		<b>219,691</b>	<b>227,951</b>	<b>583,615</b>	<b>655,632</b>
<b>EXPENSES</b>					
Operating		54,825	57,826	162,569	160,293
Transportation		9,696	11,090	29,946	31,513
Equity based compensation	8	15,642	16,773	49,746	53,699
Gain on derivative instruments		(13,864)	(42,874)	(406)	(36,347)
Interest expense		14,150	15,420	42,547	43,268
General and administration		12,295	13,088	41,365	41,153
Foreign exchange gain		(4,972)	(15,267)	(4,415)	(16,019)
Other expense (income)		106	82	46	(31,654)
Accretion	4	6,341	6,199	18,475	17,587
Depletion and depreciation	2, 3	143,556	148,843	401,147	350,946
Impairment	2	-	143,000	14,762	143,000
		<b>237,775</b>	<b>354,180</b>	<b>755,782</b>	<b>757,439</b>
<b>LOSS BEFORE INCOME TAXES</b>		<b>(18,084)</b>	<b>(126,229)</b>	<b>(172,167)</b>	<b>(101,807)</b>
<b>INCOME TAXES</b>					
Deferred	6	(6,883)	(55,401)	(28,418)	(79,759)
Current		3,274	12,482	12,270	53,174
		<b>(3,609)</b>	<b>(42,919)</b>	<b>(16,148)</b>	<b>(26,585)</b>
<b>NET LOSS</b>		<b>(14,475)</b>	<b>(83,310)</b>	<b>(156,019)</b>	<b>(75,222)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
Currency translation adjustments		38,963	101,923	(29,893)	89,332
<b>COMPREHENSIVE INCOME (LOSS)</b>		<b>24,488</b>	<b>18,613</b>	<b>(185,912)</b>	<b>14,110</b>
<b>NET LOSS PER SHARE</b>					
Basic		(0.12)	(0.76)	(1.36)	(0.69)
Diluted		(0.12)	(0.76)	(1.36)	(0.69)
<b>WEIGHTED AVERAGE SHARES OUTSTANDING ('000s)</b>					
Basic		116,814	110,293	114,975	109,052
Diluted		116,814	110,293	114,975	109,052

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

		Three Months Ended		Nine Months Ended	
	Note	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
OPERATING					
Net loss		(14,475)	(83,310)	(156,019)	(75,222)
Adjustments:					
Accretion	4	6,341	6,199	18,475	17,587
Depletion and depreciation	2, 3	143,556	148,843	401,147	350,946
Impairment	2	-	143,000	14,762	143,000
Unrealized (gain) loss on derivative instruments		(332)	(32,020)	63,050	(16,155)
Equity based compensation		15,642	16,773	49,746	53,699
Unrealized foreign exchange gain		(2,899)	(14,958)	(1,665)	(15,144)
Unrealized other expense		24	309	131	774
Deferred taxes	6	(6,883)	(55,401)	(28,418)	(79,759)
Asset retirement obligations settled	4	(2,066)	(2,123)	(6,290)	(6,448)
Changes in non-cash operating working capital		12,818	(5,082)	(5,662)	(93,733)
Cash flows from operating activities		151,726	122,230	349,257	279,545
INVESTING					
Drilling and development	2	(41,039)	(93,381)	(175,108)	(357,865)
Exploration and evaluation	3	-	-	(418)	-
Property acquisitions	2, 3	(10,391)	(22,155)	(19,811)	(22,670)
Changes in non-cash investing working capital		(15,715)	646	(18,325)	(26,516)
Cash flows used in investing activities		(67,145)	(114,890)	(213,662)	(407,051)
FINANCING					
(Decrease) increase in long-term debt		(44,138)	63,328	147,529	251,189
Repayment of senior unsecured notes	5	-	-	(225,000)	-
Decrease in finance lease obligation		(1,112)	(1,297)	(3,005)	(1,297)
Cash dividends		(24,291)	(26,437)	(72,395)	(102,586)
Cash flows (used in) from financing activities		(69,541)	35,594	(152,871)	147,306
Foreign exchange gain (loss) on cash held in foreign currencies		1,182	7,844	(2,983)	8,611
Net change in cash and cash equivalents		16,222	50,778	(20,259)	28,411
Cash and cash equivalents, beginning of period		5,195	98,038	41,676	120,405
Cash and cash equivalents, end of period		21,417	148,816	21,417	148,816
Supplementary information for cash flows from operating activities					
Interest paid		8,628	18,464	49,353	49,219
Income taxes (refunded) paid		(9,968)	19,501	(15,447)	78,329

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

	Note	Nine Months Ended	
		Sep 30, 2016	Sep 30, 2015
<b>SHAREHOLDERS' CAPITAL</b>			
Balance, beginning of period		2,181,089	1,959,021
Equity based compensation	8	6,700	1,658
Shares issued for the DRIP <sup>(1)</sup>		149,418	108,269
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	2,407,595	2,133,364
<b>CONTRIBUTED SURPLUS</b>			
Balance, beginning of period		107,946	92,188
Equity based compensation	8	43,046	52,041
Vesting of equity based awards		(67,146)	(56,855)
Balance, end of period		83,846	87,374
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>			
Balance, beginning of period		113,647	5,722
Currency translation adjustments		(29,893)	89,332
Balance, end of period		83,754	95,054
<b>DEFICIT</b>			
Balance, beginning of period		(544,023)	(35,585)
Net loss		(156,019)	(75,222)
Dividends declared	7	(222,974)	(211,610)
Share-settled dividends on vested equity based awards		(3,242)	(7,561)
Balance, end of period		(926,258)	(329,978)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,648,937</b>	<b>1,985,814</b>

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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](http://www.sedar.com) or on Vermilion's website at [www.vermilionenergy.com](http://www.vermilionenergy.com).

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of Vermilion on October 28, 2016.

**2. CAPITAL ASSETS**

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

(\$M)	Capital Assets
<b>Balance at December 31, 2015</b>	<b>3,467,369</b>
Additions	175,108
Property acquisitions	17,489
Changes in estimate for asset retirement obligations	28,202
Depletion and depreciation	(372,343)
Recognition of finance lease asset	1,593
Impairment	(14,762)
Foreign exchange	(35,978)
<b>Balance at September 30, 2016</b>	<b>3,266,678</b>

**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 measures 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 nine months ended September 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 nine months ended September 30, 2016, a one percent increase in the assumed discount rate on expected cash flows of the Ireland CGU would result in no additional impairment, and a five percent decrease in forward commodity prices would result in an additional impairment of \$11.0 million.

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

Forward Commodity Price Assumptions <sup>(1)</sup>										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 <sup>(2)</sup>
NBP (€/mmbtu)	4.35	4.80	5.51	5.91	6.05	6.17	6.28	6.40	6.52	6.63

<sup>(1)</sup> Source: Average of GLJ Petroleum Consultants and Sproule price forecasts, effective October 1, 2016.

<sup>(2)</sup> 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	20
Property acquisitions	2,322
Depreciation	(28,177)
Foreign exchange	(936)
Balance at September 30, 2016	281,839

### 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	760
Obligations settled	(6,290)
Accretion	18,475
Changes in discount rates	27,462
Foreign exchange	(2,012)
Balance at September 30, 2016	344,008

### 5. LONG-TERM DEBT

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

(\$M)	As at	
	Sep 30, 2016	Dec 31, 2015
Revolving credit facility	1,312,652	1,162,998
Senior unsecured notes <sup>(1)</sup>	-	224,901
Long-term debt	1,312,652	1,387,899

<sup>(1)</sup> 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 September 30, 2016, Vermilion had in place a bank revolving credit facility totalling \$2 billion, of which approximately \$1.31 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 nine months ended September 30, 2016, the interest rate on the revolving credit facility was approximately 3.5% (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 \$21.0 million as at September 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 September 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 nine months ended September 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 September 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	3,823	149,418
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	165	6,700
Balance as at September 30, 2016	117,386	2,407,595

Dividends declared to shareholders for the nine months ended September 30, 2016 were \$223.0 million (2015 - \$211.6 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 \$25.3 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	763
Vested	(628)
Modified	11
Forfeited	(127)
Closing balance	1,730

## 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 and expenditures relating to Vermilion's activities in Central and Eastern Europe.

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 September 30, 2016								Total
	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	
Drilling and development	10,421	11,110	6,441	978	2,416	6,908	2,765	-	41,039
Oil and gas sales to external customers	64,453	65,221	23,470	6,783	26,065	44,835	1,833	-	232,660
Royalties	(4,817)	(7,069)	(312)	(246)	-	-	(525)	-	(12,969)
Revenue from external customers	59,636	58,152	23,158	6,537	26,065	44,835	1,308	-	219,691
Transportation	(3,978)	(3,586)	-	(556)	(1,576)	-	-	-	(9,696)
Operating	(15,579)	(12,933)	(4,854)	(3,321)	(4,695)	(13,011)	(432)	-	(54,825)
General and administration	(3,010)	(4,590)	633	(1,657)	(955)	(1,289)	(918)	(509)	(12,295)
PRRT	-	-	-	-	-	272	-	-	272
Corporate income taxes	-	955	(1,264)	-	-	(2,916)	-	(321)	(3,546)
Interest expense	-	-	-	-	-	-	-	(14,150)	(14,150)
Realized gain on derivative instruments	-	-	-	-	-	-	-	13,532	13,532
Realized foreign exchange gain	-	-	-	-	-	-	-	2,073	2,073
Realized other expense	-	-	-	-	-	-	-	(82)	(82)
Fund flows from operations	37,069	37,998	17,673	1,003	18,839	27,891	(42)	543	140,974

(\$M)	Three Months Ended September 30, 2015								Total
	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	
Drilling and development	37,224	17,369	5,297	1,605	20,694	7,966	3,226	-	93,381
Oil and gas sales to external customers	77,493	76,552	41,083	9,523	-	39,325	1,075	-	245,051
Royalties	(6,638)	(8,038)	(638)	(1,477)	-	-	(309)	-	(17,100)
Revenue from external customers	70,855	68,514	40,445	8,046	-	39,325	766	-	227,951
Transportation	(4,131)	(4,566)	-	(627)	(1,766)	-	-	-	(11,090)
Operating	(23,877)	(11,998)	(5,243)	(2,796)	-	(13,766)	(146)	-	(57,826)
General and administration	(3,694)	(5,338)	(2,154)	(1,311)	(663)	(1,391)	(896)	2,359	(13,088)
PRRT	-	-	-	-	-	(99)	-	-	(99)
Corporate income taxes	-	(4,696)	(4,487)	-	-	(2,720)	-	(480)	(12,383)
Interest expense	-	-	-	-	-	-	-	(15,420)	(15,420)
Realized gain on derivative instruments	-	-	-	-	-	-	-	10,854	10,854
Realized foreign exchange gain	-	-	-	-	-	-	-	309	309
Realized other income	-	-	-	-	-	-	-	227	227
Fund flows from operations	39,153	41,916	28,561	3,312	(2,429)	21,349	(276)	(2,151)	129,435

(\$M)	Nine Months Ended September 30, 2016								Total
	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	
Total assets	1,507,693	816,731	186,524	154,699	807,534	258,257	54,953	129,026	3,915,417
Drilling and development	45,811	37,345	18,003	2,109	7,664	54,674	9,502	-	175,108
Exploration and evaluation	-	-	-	-	-	-	-	418	418
Oil and gas sales to external customers	182,294	174,937	74,729	20,755	66,429	98,483	5,273	-	622,900
Royalties	(14,085)	(20,399)	(1,168)	(2,077)	-	-	(1,556)	-	(39,285)
Revenue from external customers	168,209	154,538	73,561	18,678	66,429	98,483	3,717	-	583,615
Transportation	(11,888)	(10,775)	-	(2,494)	(4,789)	-	-	-	(29,946)
Operating	(53,382)	(38,518)	(15,136)	(8,420)	(13,498)	(32,602)	(1,013)	-	(162,569)
General and administration	(9,791)	(14,000)	(1,363)	(6,559)	(3,249)	(4,402)	(2,747)	746	(41,365)
PRRT	-	-	-	-	-	-	-	-	-
Corporate income taxes	-	-	(6,724)	-	-	(4,819)	-	(727)	(12,270)
Interest expense	-	-	-	-	-	-	-	(42,547)	(42,547)
Realized gain on derivative instruments	-	-	-	-	-	-	-	63,456	63,456
Realized foreign exchange gain	-	-	-	-	-	-	-	2,750	2,750
Realized other income	-	-	-	-	-	-	-	85	85
Fund flows from operations	93,148	91,245	50,338	1,205	44,893	56,660	(43)	23,763	361,209

(\$M)	Nine Months Ended September 30, 2015								Total
	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	
Total assets	1,769,222	902,777	219,221	172,664	947,592	223,261	36,955	231,009	4,502,701
Drilling and development	173,954	68,180	28,515	5,804	53,916	20,889	6,607	-	357,865
Oil and gas sales to external customers	246,661	218,011	91,814	31,544	-	114,813	2,424	-	705,267
Royalties	(20,998)	(19,760)	(2,858)	(5,313)	-	-	(706)	-	(49,635)
Revenue from external customers	225,663	198,251	88,956	26,231	-	114,813	1,718	-	655,632
Transportation	(12,542)	(11,103)	-	(2,761)	(5,107)	-	-	-	(31,513)
Operating	(64,510)	(34,926)	(16,483)	(6,168)	-	(37,735)	(471)	-	(160,293)
General and administration	(13,219)	(15,323)	(3,345)	(4,354)	(1,803)	(3,986)	(2,939)	3,816	(41,153)
PRRT	-	-	-	-	-	(5,824)	-	-	(5,824)
Corporate income taxes	-	(28,293)	(9,222)	-	-	(8,431)	-	(1,404)	(47,350)
Interest expense	-	-	-	-	-	-	-	(43,268)	(43,268)
Realized gain on derivative instruments	-	-	-	-	-	-	-	20,192	20,192
Realized foreign exchange gain	-	-	-	-	-	-	-	875	875
Realized other income	-	31,775	-	-	-	-	-	653	32,428
Fund flows from operations	135,392	140,381	59,906	12,948	(6,910)	58,837	(1,692)	(19,136)	379,726

## Reconciliation of fund flows from operations to net loss

(\$M)	Three Months Ended		Nine Months Ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Fund flows from operations	140,974	129,435	361,209	379,726
Equity based compensation	(15,642)	(16,773)	(49,746)	(53,699)
Unrealized gain (loss) on derivative instruments	332	32,020	(63,050)	16,155
Unrealized foreign exchange gain	2,899	14,958	1,665	15,144
Unrealized other expense	(24)	(309)	(131)	(774)
Accretion	(6,341)	(6,199)	(18,475)	(17,587)
Depletion and depreciation	(143,556)	(148,843)	(401,147)	(350,946)
Deferred taxes	6,883	55,401	28,418	79,759
Impairment	-	(143,000)	(14,762)	(143,000)
Net loss	(14,475)	(83,310)	(156,019)	(75,222)

## 10. CAPITAL DISCLOSURES

(\$M except as indicated)	Three Months Ended		Nine Months Ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Long-term debt	1,312,652	1,270,154	1,312,652	1,270,154
Current liabilities	246,498	474,885	246,498	474,885
Current assets	(215,227)	(381,996)	(215,227)	(381,996)
Net debt [1]	1,343,923	1,363,043	1,343,923	1,363,043
Fund flows from operations	140,974	129,435	361,209	379,726
Annualized fund flows from operations [2]	563,896	517,740	481,612	506,301
Ratio of net debt to annualized fund flows from operations ([1] ÷ [2])	2.4	2.6	2.8	2.7

The ratio of net debt to annualized fund flows from operations increased to 2.8 times for the nine months ended September 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. 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 nine months ended September 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.

Risk (\$M)	Description of change in risk variable	Before tax effect on comprehensive income - increase (decrease)
		Sep 30, 2016
Currency risk - Euro to Canadian	5% increase in strength of the Canadian dollar against the Euro	(2,128)
	5% decrease in strength of the Canadian dollar against the Euro	2,128
Currency risk - US \$ to Canadian	5% increase in strength of the Canadian dollar against the US \$	(57,992)
	5% decrease in strength of the Canadian dollar against the US \$	57,992
Commodity price risk	US \$5.00/bbl increase in crude oil price used to determine the fair value of derivatives	(2,600)
	US \$5.00/bbl decrease in crude oil price used to determine the fair value of derivatives	6,615
	€ 0.5/GJ increase in European natural gas price used to determine the fair value of derivatives	(26,545)
	€ 0.5/GJ decrease in European natural gas price used to determine the fair value of derivatives	23,923
Interest rate risk	1% increase in average Canadian prime interest rate	(8,552)
	1% decrease in average Canadian prime interest rate	8,552

The above table shows the before tax effect on comprehensive income for a 5% change in the US dollar to Canadian dollar exchange rate based on derivative instruments, long-term debt, and other financial instruments as at September 30, 2016. The \$58.0 million increase or decrease shown above is primarily driven by US \$0.9 billion notional of cross currency interest rate swaps outstanding as at September 30, 2016 and effective for October 2016.

Subsequent to September 30, 2016, Vermilion repaid \$1.1 billion of borrowings on the revolving credit facility bearing interest at CDOR plus applicable margins and simultaneously borrowed US \$0.9 billion on the revolving credit facility bearing interest at LIBOR plus applicable margins. As this transaction occurred subsequent to the balance sheet date, it is not included in the calculations shown in the above table.

## CORPORATE INFORMATION

## DIRECTORS

Lorenzo Donadeo <sup>1</sup>  
Calgary, Alberta

Larry J. Macdonald <sup>2, 4, 5, 6</sup>  
Chairman & CEO, Point Energy Ltd.  
Calgary, Alberta

Claudio A. Ghersinich <sup>3, 6</sup>  
Executive Director, Carrera Investments Corp.  
Calgary, Alberta

Loren M. Leiker <sup>6</sup>  
Houston, Texas

William F. Madison <sup>5, 6</sup>  
Sugar Land, Texas

Timothy R. Marchant <sup>5, 6</sup>  
Calgary, Alberta

Anthony Marino  
Calgary, Alberta

Robert Michaleski  
Calgary, Alberta

Sarah E. Raiss <sup>4, 5</sup>  
Calgary, Alberta

Catherine L. Williams <sup>3, 4</sup>  
Calgary, Alberta

<sup>1</sup> Chairman of the Board

<sup>2</sup> Lead Director

<sup>3</sup> Audit Committee

<sup>4</sup> Governance and Human Resources Committee

<sup>5</sup> Health, Safety and Environment Committee

<sup>6</sup> 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

## AUDITORS

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Calgary, Alberta

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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

JPMorgan Chase Bank, N.A., Toronto Branch

Union Bank, Canada Branch

Barclays Bank PLC

Canadian Western Bank

Goldman Sachs Lending Partners LLC

## EVALUATION ENGINEERS

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## TRANSFER AGENT

Computershare Trust Company of Canada

## STOCK EXCHANGE LISTINGS

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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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