

Q2 2017

FINANCIAL STATEMENTS

EXCELLENCE. TRUST. RESPECT. RESPONSIBILITY.

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 SHEET
(THOUSANDS OF CANADIAN DOLLARS, UNAUDITED)

	Note	June 30, 2017	December 31, 2016
ASSETS			
Current			
Cash and cash equivalents		15,724	62,775
Accounts receivable		110,222	131,719
Crude oil inventory		18,659	14,528
Derivative instruments		31,199	4,336
Prepaid expenses		19,433	12,548
		195,237	225,906
Derivative instruments		9,229	1,157
Deferred taxes		96,326	152,046
Exploration and evaluation assets	4	273,957	274,830
Capital assets	3	3,438,181	3,433,245
		4,012,930	4,087,184
LIABILITIES			
Current			
Accounts payable and accrued liabilities		172,648	181,557
Dividends payable	7	26,004	25,426
Derivative instruments		4,578	47,660
Income taxes payable		44,538	36,219
		247,768	290,862
Derivative instruments		2,353	27,484
Long-term debt	6	1,262,235	1,362,192
Finance lease obligation		18,570	19,628
Asset retirement obligations	5	550,403	525,022
Deferred taxes		283,869	283,533
		2,365,198	2,508,721
SHAREHOLDERS' EQUITY			
Shareholders' capital	7	2,602,014	2,452,722
Contributed surplus		58,350	101,788
Accumulated other comprehensive income		63,874	30,339
Deficit		(1,076,506)	(1,006,386)
		1,647,732	1,578,463
		4,012,930	4,087,184

APPROVED BY THE BOARD

(Signed "Catherine L. Williams")

Catherine L. Williams, Director

(Signed "Anthony Marino")

Anthony Marino, Director

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

	Note	Three Months Ended		Six Months Ended	
		June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
REVENUE					
Petroleum and natural gas sales		271,391	212,855	532,992	390,240
Royalties		(17,736)	(12,355)	(33,941)	(26,316)
Petroleum and natural gas revenue		253,655	200,500	499,051	363,924
EXPENSES					
Operating		63,074	52,116	115,195	107,744
Transportation		10,843	9,860	20,662	20,250
Equity based compensation	9	13,896	13,267	32,634	34,104
(Gain) loss on derivative instruments		(28,625)	50,935	(106,639)	13,458
Interest expense		15,508	13,647	30,203	28,397
General and administration		13,167	15,493	26,318	29,070
Foreign exchange (gain) loss		(39,597)	1,475	(37,625)	557
Other income		(42)	(42)	(54)	(60)
Accretion	5	6,748	6,025	13,130	12,134
Depletion and depreciation	3, 4	126,269	131,793	241,678	257,591
Impairment		-	-	-	14,762
		181,241	294,569	335,502	518,007
EARNINGS (LOSS) BEFORE INCOME TAXES		72,414	(94,069)	163,549	(154,083)
TAXES					
Deferred		13,635	(44,081)	47,317	(21,535)
Current		10,515	5,708	23,428	8,996
		24,150	(38,373)	70,745	(12,539)
NET EARNINGS (LOSS)		48,264	(55,696)	92,804	(141,544)
OTHER COMPREHENSIVE INCOME (LOSS)					
Currency translation adjustments		22,357	(41,526)	33,535	(68,856)
COMPREHENSIVE INCOME (LOSS)		70,621	(97,222)	126,339	(210,400)
NET EARNINGS (LOSS) PER SHARE					
Basic		0.40	(0.48)	0.78	(1.24)
Diluted		0.39	(0.48)	0.76	(1.24)
WEIGHTED AVERAGE SHARES OUTSTANDING ('000s)					
Basic		120,514	115,366	119,578	114,046
Diluted		122,660	115,366	121,488	114,046

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

		Three Months Ended		Six Months Ended	
	Note	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
OPERATING					
Net earnings (loss)		48,264	(55,696)	92,804	(141,544)
Adjustments:					
Accretion	5	6,748	6,025	13,130	12,134
Depletion and depreciation	3, 4	126,269	131,793	241,678	257,591
Impairment		-	-	-	14,762
Unrealized (gain) loss on derivative instruments		(23,283)	72,436	(103,148)	63,382
Equity based compensation		13,896	13,267	32,634	34,104
Unrealized foreign exchange (gain) loss		(38,616)	2,804	(34,098)	1,234
Unrealized other expense		210	20	240	107
Deferred taxes		13,635	(44,081)	47,317	(21,535)
Asset retirement obligations settled	5	(2,120)	(2,200)	(4,369)	(4,224)
Changes in non-cash operating working capital		(16,064)	(720)	15,387	(18,480)
Cash flows from operating activities		128,939	123,648	301,575	197,531
INVESTING					
Drilling and development	3	(57,681)	(71,296)	(152,845)	(134,069)
Exploration and evaluation	4	(1,194)	(418)	(1,919)	(418)
Property acquisitions	3, 4	(993)	(8,550)	(3,613)	(9,420)
Changes in non-cash investing working capital		(12,039)	1,477	(4,845)	(2,610)
Cash flows used in investing activities		(71,907)	(78,787)	(163,222)	(146,517)
FINANCING					
Borrowings (repayments) on the revolving credit facility	6	5,269	(77,893)	(488,759)	191,667
Issuance (repayment) of senior unsecured notes	6	-	-	391,906	(225,000)
Decrease in finance lease obligation		(1,150)	(998)	(2,381)	(1,893)
Cash dividends		(48,206)	(23,562)	(89,126)	(48,104)
Cash flows used in financing activities		(44,087)	(102,453)	(188,360)	(83,330)
Foreign exchange gain (loss) on cash held in foreign currencies		1,631	(459)	2,956	(4,165)
Net change in cash and cash equivalents		14,576	(58,051)	(47,051)	(36,481)
Cash and cash equivalents, beginning of period		1,148	63,246	62,775	41,676
Cash and cash equivalents, end of period		15,724	5,195	15,724	5,195
Supplementary information for cash flows from operating activities					
Interest paid		10,843	19,414	23,177	40,725
Income taxes paid (refunded)		10,101	(7,869)	15,109	(5,479)

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

	Six Months Ended	
	June 30, 2017	June 30, 2016
SHAREHOLDERS' CAPITAL		
Balance, beginning of period	2,452,722	2,181,089
Shares issued for the Dividend Reinvestment Plan	64,747	98,506
Vesting of equity based awards	69,675	67,146
Equity based compensation	6,397	5,328
Share-settled dividends on vested equity based awards	8,473	3,242
Balance, end of period	2,602,014	2,355,311
CONTRIBUTED SURPLUS		
Balance, beginning of period	101,788	107,946
Equity based compensation	26,237	28,776
Vesting of equity based awards	(69,675)	(67,146)
Balance, end of period	58,350	69,576
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of period	30,339	113,647
Currency translation adjustments	33,535	(68,856)
Balance, end of period	63,874	44,791
DEFICIT		
Balance, beginning of period	(1,006,386)	(544,023)
Net earnings (loss)	92,804	(141,544)
Dividends declared	(154,451)	(147,509)
Share-settled dividends on vested equity based awards	(8,473)	(3,242)
Balance, end of period	(1,076,506)	(836,318)
TOTAL SHAREHOLDERS' EQUITY	1,647,732	1,633,360

Please refer to Financial Statement Note 7 (Shareholders' Capital) and Note 9 (Equity Based Compensation) for additional information.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(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, 2016.

These condensed consolidated interim financial statements should be read in conjunction with Vermilion's consolidated financial statements for the year ended December 31, 2016, which are contained within Vermilion's Annual Report for the year ended December 31, 2016 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 July 25, 2017.

2. SEGMENTED INFORMATION

Vermilion's chief operating decision maker regularly reviews fund flows from operations generated by each of Vermilion's operating segments. Fund flows from operations is a measure of profit or loss that provides the chief operating decision maker with the ability to assess the operating segments' profitability and, correspondingly, the ability of each operating segment to fund its share of dividends, asset retirement obligations, and capital investments.

(\$M)	Three Months Ended June 30, 2017								Total
	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	
Drilling and development	20,599	16,543	5,973	326	(73)	9,158	5,155	-	57,681
Exploration and evaluation	-	139	-	-	-	-	-	1,055	1,194
Oil and gas sales to external customers	83,643	63,615	19,126	16,167	36,671	48,061	4,108	-	271,391
Royalties	(8,805)	(6,247)	(296)	(1,228)	-	-	(1,160)	-	(17,736)
Revenue from external customers	74,838	57,368	18,830	14,939	36,671	48,061	2,948	-	253,655
Transportation	(3,944)	(3,686)	-	(1,955)	(1,258)	-	-	-	(10,843)
Operating	(19,347)	(12,153)	(4,892)	(5,753)	(4,903)	(15,639)	(387)	-	(63,074)
General and administration	(3,127)	(3,713)	(560)	(2,099)	(695)	(896)	(1,127)	(950)	(13,167)
PRRT	-	-	-	-	-	(6,468)	-	-	(6,468)
Corporate income taxes	-	(1,830)	(754)	-	-	(1,192)	-	(271)	(4,047)
Interest expense	-	-	-	-	-	-	-	(15,508)	(15,508)
Realized gain on derivative instruments	-	-	-	-	-	-	-	5,342	5,342
Realized foreign exchange gain	-	-	-	-	-	-	-	981	981
Realized other income	-	-	-	-	-	-	-	252	252
Fund flows from operations	48,420	35,986	12,624	5,132	29,815	23,866	1,434	(10,154)	147,123

(\$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)	Six Months Ended June 30, 2017								Total
	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	
Total assets	1,532,263	830,551	203,918	294,665	707,000	261,176	77,824	105,533	4,012,930
Drilling and development	78,056	37,459	7,685	1,232	(877)	12,596	16,694	-	152,845
Exploration and evaluation	-	139	-	-	-	-	-	1,780	1,919
Oil and gas sales to external customers	159,143	123,225	45,888	34,135	81,319	83,048	6,234	-	532,992
Royalties	(17,304)	(11,567)	(715)	(2,596)	-	-	(1,759)	-	(33,941)
Revenue from external customers	141,839	111,658	45,173	31,539	81,319	83,048	4,475	-	499,051
Transportation	(8,047)	(6,718)	-	(3,440)	(2,457)	-	-	-	(20,662)
Operating	(36,017)	(23,522)	(9,733)	(10,674)	(8,902)	(25,675)	(672)	-	(115,195)
General and administration	(4,825)	(6,783)	(1,156)	(3,979)	(1,133)	(3,326)	(2,132)	(2,984)	(26,318)
PRRT	-	-	-	-	-	(11,902)	-	-	(11,902)
Corporate income taxes	-	(6,812)	(1,661)	-	-	(2,588)	-	(465)	(11,526)
Interest expense	-	-	-	-	-	-	-	(30,203)	(30,203)
Realized gain on derivative instruments	-	-	-	-	-	-	-	3,491	3,491
Realized foreign exchange gain	-	-	-	-	-	-	-	3,527	3,527
Realized other income	-	-	-	-	-	-	-	294	294
Fund flows from operations	92,950	67,823	32,623	13,446	68,827	39,557	1,671	(26,340)	290,557

(\$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

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

(\$M)	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Fund flows from operations	147,123	126,568	290,557	220,235
Accretion	(6,748)	(6,025)	(13,130)	(12,134)
Depletion and depreciation	(126,269)	(131,793)	(241,678)	(257,591)
Impairment	-	-	-	(14,762)
Unrealized gain (loss) on derivative instruments	23,283	(72,436)	103,148	(63,382)
Equity based compensation	(13,896)	(13,267)	(32,634)	(34,104)
Unrealized foreign exchange gain (loss)	38,616	(2,804)	34,098	(1,234)
Unrealized other expense	(210)	(20)	(240)	(107)
Deferred taxes	(13,635)	44,081	(47,317)	21,535
Net earnings (loss)	48,264	(55,696)	92,804	(141,544)

3. CAPITAL ASSETS

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

(\$M)	2017
Balance at January 1	3,433,245
Additions	152,845
Property acquisitions	3,573
Changes in asset retirement obligations	(1,598)
Depletion and depreciation	(237,869)
Foreign exchange	87,985
Balance at June 30	3,438,181

4. EXPLORATION AND EVALUATION ASSETS

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

(\$M)	2017
Balance January 1	274,830
Additions	1,919
Property acquisitions	40
Changes in asset retirement obligations	4
Depreciation	(4,826)
Foreign exchange	1,990
Balance June 30	273,957

5. ASSET RETIREMENT OBLIGATIONS

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

(\$M)	2017
Balance at January 1	525,022
Additional obligations recognized	1,151
Changes in estimates	(112)
Obligations settled	(4,369)
Accretion	13,130
Changes in discount rates	(2,633)
Foreign exchange	18,214
Balance at June 30	550,403

6. LONG-TERM DEBT

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

(\$M)	As at	
	June 30, 2017	Dec 31, 2016
Revolving credit facility	879,169	1,362,192
Senior unsecured notes	383,066	-
Long-term debt	1,262,235	1,362,192

The fair value of the revolving credit facility is equal to its carrying value due to the use of short-term borrowing instruments at market rates of interest. The fair value of the senior unsecured notes as at June 30, 2017 is \$386.7 million.

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

(\$M)	2017
Balance at January 1	1,362,192
Repayments on the revolving credit facility	(488,759)
Issuance of senior unsecured notes	391,906
Amortization of transaction costs and prepaid interest	624
Foreign exchange	(3,728)
Balance at June 30	1,262,235

Revolving Credit Facility

At June 30, 2017, Vermilion had in place a bank revolving credit facility maturing May 31, 2021 with the following terms:

(\$M)	As at	
	June 30, 2017	Dec 31, 2016
Total facility amount	1,400,000	2,000,000
Amount drawn	(879,169)	(1,362,192)
Letters of credit outstanding	(4,500)	(20,100)
Unutilized capacity	516,331	617,708

The facility is extendable from time to time at the option of the lenders and upon notice from Vermilion. If no extension is granted by the lenders, the amounts owing pursuant to the facility are due at the maturity date. The facility is secured by various fixed and floating charges against the subsidiaries of Vermilion. The facility bears interest at a rate applicable to demand loans plus applicable margins. As at June 30, 2017, a 1% increase in the average Canadian prime interest rate would decrease comprehensive income before tax by \$4.5 million (and vice versa).

In April 2017, as a result of proceeds from the issuance of the senior unsecured notes and projected liquidity requirements, Vermilion elected to reduce the total facility amount from \$2.0 billion to \$1.4 billion.

As at June 30, 2017, the revolving credit facility was subject to the following financial covenants:

Financial covenant	Limit	As at	
		June 30, 2017	Dec 31, 2016
Consolidated total debt to consolidated EBITDA	4.0	1.91	2.36
Consolidated total senior debt to consolidated EBITDA	3.5	1.30	2.32
Consolidated total senior debt to total capitalization	55%	30%	46%

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

- Consolidated total debt: Includes all amounts classified as “Long-term debt” and “Finance lease obligation”.
- Consolidated total senior debt: Defined as consolidated total debt excluding unsecured and subordinated debt.
- Consolidated EBITDA: Defined as consolidated net earnings before interest, income taxes, depreciation, accretion and certain other non-cash items.
- Total capitalization: Includes all amounts on the balance sheet classified as “Shareholders’ equity” plus consolidated total debt as defined above.

As at June 30, 2017 and December 31, 2016, Vermilion was in compliance with the above covenants.

Senior Unsecured Notes

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

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

Vermilion may, at its option, redeem the notes prior to maturity as follows:

- Prior to March 15, 2020, Vermilion may redeem up to 35% of the original principal amount of the senior unsecured notes with the proceeds of certain equity offerings by the Company at a redemption price of 105.625% of the principal amount plus any accrued and unpaid interest to the applicable redemption date.
- Prior to March 15, 2020, Vermilion may redeem some or all of the senior unsecured notes at a price equal to 100% of the principal amount of the senior unsecured notes, plus an applicable premium and any accrued and unpaid interest.
- On or after March 15, 2020, Vermilion may redeem some or all of the senior unsecured notes at the redemption prices set forth in the following table plus any accrued and unpaid interest.

Year	Redemption price
2020	104.219%
2021	102.819%
2022	101.406%
2023 and thereafter	100.000%

7. SHAREHOLDERS' CAPITAL

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

Shareholders' Capital	Shares ('000s)	Amount (\$M)
Balance as at January 1	118,263	2,452,722
Shares issued for the Dividend Reinvestment Plan	1,325	64,747
Vesting of equity based awards	1,059	69,675
Shares issued for equity based compensation	130	6,397
Share-settled dividends on vested equity based awards	170	8,473
Balance as at June 30	120,947	2,602,014

Dividends declared to shareholders for the six months ended June 30, 2017 were \$154.5 million (2016 - \$147.5 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 \$26.1 million or \$0.215 per share.

8. CAPITAL DISCLOSURES

Vermilion defines capital as net debt (long-term debt plus net working capital) and shareholders' capital.

In managing capital, Vermilion reviews whether fund flows from operations is sufficient to fund capital expenditures, dividends, and asset retirement obligations.

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

(\$M except as indicated)	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Long-term debt	1,262,235	1,349,366	1,262,235	1,349,366
Current liabilities	247,768	278,831	247,768	278,831
Current assets	(195,237)	(229,247)	(195,237)	(229,247)
Net debt	1,314,766	1,398,950	1,314,766	1,398,950
Fund flows from operations	147,123	126,568	290,557	220,235
Annualized fund flows from operations	588,492	506,272	581,114	440,470
Ratio of net debt to annualized fund flows from operations	2.2	2.8	2.3	3.2

9. EQUITY BASED COMPENSATION

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

Number of Awards ('000s)	2017
Opening balance	1,738
Granted	524
Vested	(539)
Forfeited	(27)
Closing balance	1,696

10. FINANCIAL INSTRUMENTS

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

(\$M)	June 30, 2017
Currency risk - Euro to Canadian	
5% increase in strength of the Canadian dollar against the Euro	(1,468)
5% decrease in strength of the Canadian dollar against the Euro	1,468
Currency risk - US \$ to Canadian	
5% increase in strength of the Canadian dollar against the US \$	(13,821)
5% decrease in strength of the Canadian dollar against the US \$	13,821
Commodity price risk	
US \$5.00/bbl increase in crude oil price used to determine the fair value of derivatives	(16,700)
US \$5.00/bbl decrease in crude oil price used to determine the fair value of derivatives	18,636
€ 0.5/GJ increase in European natural gas price used to determine the fair value of derivatives	(31,202)
€ 0.5/GJ decrease in European natural gas price used to determine the fair value of derivatives	37,920

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 June 30, 2017. A 5% increase in the strength of the Canadian dollar against the US dollar would result in a \$13.8 million decrease to comprehensive income before tax due to the impact of US \$0.6 billion notional of cross currency interest rate swaps outstanding as at June 30, 2017 and effective for July 2017.

Subsequent to June 30, 2017, Vermilion repaid \$0.6 billion of borrowings on the revolving credit facility bearing interest at CDOR (Canadian Dollar Offered Rate) plus applicable margins and simultaneously borrowed US \$0.5 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. If included, a 5% increase in strength of the Canadian dollar against the US dollar as at June 30, 2017 would increase comprehensive income before tax by \$18.2 million (and vice versa).

DIRECTORS

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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 Alberta
bbl(s)	barrel(s)
bbls/d	barrels per day
boe	barrel of oil equivalent, including: crude oil, condensate, natural gas liquids, and natural gas (converted on the basis of one boe for six mcf of natural gas)
boe/d	barrel of oil equivalent per day
GJ	gigajoules
HH	Henry Hub, a reference price paid for natural gas in US dollars at Erath, Louisiana
mbbls	thousand barrels
mcf	thousand cubic feet
mmbtu	million British thermal units
mmcf/d	million cubic feet per day
MWh	megawatt hour
NBP	the reference price paid for natural gas in the United Kingdom at the National Balancing Point Virtual Trading Point.
NGLs	natural gas liquids, which includes butane, propane, and ethane
PRRT	Petroleum Resource Rent Tax, a profit based tax levied on petroleum projects in Australia
TTF	the price for natural gas in the Netherlands at the Title Transfer Facility Virtual Trading Point.
WTI	West Texas Intermediate, the reference price paid for crude oil of standard grade in US dollars at Cushing, Oklahoma

OFFICERS AND KEY PERSONNEL**CANADA**

Anthony Marino
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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

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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 Srala
Managing Director - Central & Eastern Europe Business
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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

Alberta Treasury Branches

Bank of America N.A., Canada Branch

BNP Paribas, Canada Branch

Citibank N.A., Canadian Branch - Citibank Canada

HSBC Bank Canada

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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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