

2020

ANNUAL REPORT

EXCELLENCE. TRUST. RESPECT. RESPONSIBILITY.



INTERNATIONALLY DIVERSIFIED | FREE CASH FLOW FOCUSED

VERMILION
ENERGY



Front Cover Theme

As illustrated by the front cover photo, we give together through our Days of Caring. Throughout the company, our staff volunteer to support social and environmental agencies we've partnered with in the communities where we operate.

Here, Vermilion has partnered with the Nature Conservancy of Canada (NCC), one of Canada's leading national conservation organizations. In 2016 and 2019, a group of Vermilion volunteers from our Canada Business Unit tackled projects like trail clearing and sign installation at the Coyote Lake Nature Sanctuary, which is a popular hiking destination near our operations in Drayton Valley, Alberta. This work helped to ensure a safe and enjoyable experience for visitors, and contributed to the safety of local wildlife.

NCC focuses on protecting the natural areas that sustain Canada's plants and wildlife by securing properties, and managing them for the long term. To date, NCC and its partners have helped to conserve more than 35 million acres of ecologically significant land from coast to coast.

Through programs like this, Vermilion is proud to have invested over \$7.4 million and 10,800 hours of volunteer time in strategic community partnerships over the past five years.

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Annual General Meeting

April 28, 2021

3:00 PM MT

With continued limits on large gatherings due to the ongoing COVID-19 pandemic, our Meeting will be held as a virtual shareholder meeting with electronic participation as explained in the 2021 Proxy Statement and Information Circular, which will be available in March 2021. Details of the meeting will be included in the Information Circular and posted on our website at <https://www.vermilionenergy.com/invest-with-us/annual-general-meeting.cfm> when available.

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 and Vermilion's ability to fund such expenditures; Vermilion's additional debt capacity providing it with additional working capital; the flexibility of Vermilion's capital program and operations; business strategies and objectives; operational and financial performance; estimated volumes of reserves and resources; petroleum and natural gas sales; future production levels and the timing thereof, including Vermilion's 2021 guidance, and rates of average annual production growth; the effect of changes in crude oil and natural gas prices, changes in exchange rates and significant declines in production or sales volumes due to unforeseen circumstances; the effect of possible changes in critical accounting estimates; statements regarding the growth and size of Vermilion's future project inventory, and the wells expected to be drilled in 2021; exploration and development plans and the timing thereof; Vermilion's ability to reduce its debt, including its ability to redeem senior unsecured notes prior to maturity; statements regarding Vermilion's hedging program, its plans to add to its hedging positions, and the anticipated impact of Vermilion's hedging program on project economics and free cash flows; the potential financial impact of climate-related risks; 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 Vermilion's expectations regarding future taxes and taxability; 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.

All crude oil and natural gas reserve and resource information contained in this document has been prepared and presented in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities and the Canadian Oil and Gas Evaluation Handbook. Reserves estimates have been made assuming that development of each property in respect of which the estimate is made will occur, without regard to the likely availability of funding required for such development. The actual crude oil and natural gas reserves and future production will be greater than or less than the estimates provided in this document.

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.

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
LSB	light sour blend crude oil reference price
mbbls	thousand barrels
mcf	thousand cubic feet
mmcf/d	million cubic feet per day
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
tCO ₂ e	tonnes of carbon dioxide equivalent
TTF	the price for natural gas in the Netherlands, quoted in megawatt hours of natural gas, 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

Highlights

- In 2020, we generated \$502 million of fund flows from operations ("FFO")⁽¹⁾ and \$135 million of free cash flow ("FCF")⁽¹⁾ after investing \$367 million on exploration and development ("E&D") capital expenditures. This resulted in a payout ratio of 92% including reclamation and abandonment expenditures and dividends paid earlier in the year.
- In Q4 2020, we generated \$135 million of FFO and invested \$60 million of E&D capital, resulting in FCF of \$75 million which went toward debt reduction. After funding reclamation and abandonment expenditures and minor acquisitions, we reduced the amount outstanding under our revolving credit facility by approximately \$175 million over the second half of 2020, leaving us with over \$500 million of liquidity available at year-end.
- Achieved 2020 average production of 95,190 boe/d⁽²⁾, slightly above the midpoint of our guidance range of 94,000 to 96,000 boe/d. Q4 2020 production averaged 87,848 boe/d⁽²⁾, reflecting the impact from a capital program executed predominately during the first part of 2020 with limited drilling activity over the second half of the year.
- Production from our North American assets averaged 58,774 boe/d⁽²⁾ in Q4 2020, a decrease of 10% from the prior quarter primarily due to natural decline. The majority of our 2020 North American drilling program was executed during the first half of the year with limited new production added during the second half of the year.
- Production from our International assets averaged 29,073 boe/d⁽²⁾ in Q4 2020, a decrease of 5% from the prior quarter primarily due to a planned turnaround in Australia and natural decline.
- Total proved plus probable reserves decreased 7% from the prior year to 467 mmbbl, as evaluated by GLJ as at December 31, 2020⁽³⁾. The decrease is primarily due lower capital activity levels and economic impacts.
- Proved plus probable reserve life index remains in excess of 13 years.
- During Q4 2020, we announced several management changes including the appointments of Mr. Dion Hatcher and Mr. Darcy Kerwin to the newly created roles of Vice President, North America and Vice President, International and HSE, respectively. In lieu of filling the role of COO, Mr. Hatcher and Mr. Kerwin will jointly fulfill the duties and continue to emphasize our focus on cost-control and safe, efficient, profitable operations.
- Vermilion was ranked at the top of our peer group in 2020 in the SAM Corporate Sustainability Assessment ("CSA"). We were also selected for The Sustainability Yearbook 2021, which reflects that our CSA sustainability performance is within the top 15% of our industry (SAM's Upstream Oil & Gas and Integrated category). Vermilion's 2020 Sustainability Report can be found on our website using the following link: <http://sustainability.vermilionenergy.com/>.
- Subsequent to the end of the year we announced a disciplined and balanced E&D capital budget of \$300 million for 2021, along with production guidance of 83,000 to 85,000 boe/d. The budget is focused on maximizing returns and FCF in order to facilitate debt reduction and preserve liquidity. Based on the mid-point of our 2021 production and capital expenditure guidance and assuming US\$60/bbl WTI oil prices for the balance of the year, we expect to generate over \$350 million of FCF in 2021, which will be used to reduce our debt.

⁽¹⁾ Non-GAAP Financial Measure. Please see the "Non-GAAP Financial Measures" section of the accompanying Management's Discussion and Analysis.

⁽²⁾ Please refer to Supplemental Table 4 "Production" of the accompanying Management's Discussion and Analysis for disclosure by product type.

⁽³⁾ Estimated gross proved, developed and producing, total proved, and total proved plus probable reserves as evaluated by GLJ Petroleum Consultants Ltd. ("GLJ") in a report dated February 12, 2021 with an effective date of December 31, 2020 (the "2020 GLJ Reserves Report").

(\$M except as indicated)	Q4 2020	Q3 2020	Q4 2019	2020	2019
Financial					
Petroleum and natural gas sales	316,198	282,020	388,802	1,119,545	1,689,863
Fund flows from operations	135,212	114,776	215,592	502,065	908,055
Fund flows from operations (\$/basic share) ⁽¹⁾	0.85	0.73	1.38	3.18	5.87
Fund flows from operations (\$/diluted share) ⁽¹⁾	0.85	0.73	1.38	3.18	5.82
Net (loss) earnings	(57,707)	(69,926)	1,477	(1,517,427)	32,799
Net (loss) earnings (\$/basic share)	(0.36)	(0.44)	0.01	(9.61)	0.21
Capital expenditures	59,894	31,330	100,625	367,202	523,164
Acquisitions	4,821	6,720	9,165	25,810	38,472
Asset retirement obligations settled	7,271	2,305	7,352	14,278	19,442
Cash dividends (\$/share)	—	—	0.690	0.575	2.760
Dividends declared	—	—	107,702	90,067	427,311
% of fund flows from operations	— %	— %	50 %	18 %	47 %
Net dividends ⁽¹⁾	—	—	97,502	81,790	392,374
% of fund flows from operations	— %	— %	45 %	16 %	43 %
Payout ⁽¹⁾	67,165	33,635	205,479	463,270	934,980
% of fund flows from operations	50 %	29 %	95 %	92 %	103 %
Net debt	2,105,983	2,136,219	1,993,194	2,105,983	1,993,194
Net debt to four quarter trailing fund flows from operations	4.19	3.67	2.20	4.19	2.20
Operational					
Production ⁽²⁾					
Crude oil and condensate (bbls/d)	40,555	43,240	46,261	43,421	47,902
NGLs (bbls/d)	8,627	9,509	8,160	8,937	7,984
Natural gas (mmcf/d)	232.00	256.34	260.72	256.99	266.82
Total (boe/d)	87,848	95,471	97,875	95,190	100,357
Average realized prices					
Crude oil and condensate (\$/bbl)	55.31	52.77	71.25	50.53	74.42
NGLs (\$/bbl)	19.20	15.04	14.63	13.06	13.61
Natural gas (\$/mcf)	4.13	2.34	3.61	2.77	3.58
Production mix (% of production)					
% priced with reference to WTI	40 %	40 %	40 %	40 %	39 %
% priced with reference to Dated Brent	17 %	17 %	17 %	16 %	18 %
% priced with reference to AECO	27 %	28 %	26 %	28 %	25 %
% priced with reference to TTF and NBP	16 %	15 %	17 %	16 %	18 %
Netbacks (\$/boe)					
Operating netback ⁽¹⁾	19.67	16.29	27.53	17.58	29.25
Fund flows from operations netback	16.50	12.95	24.40	14.32	24.77
Operating expenses	13.00	10.21	12.52	11.89	12.01
General and administration expenses	2.27	1.35	1.88	1.73	1.61
Average reference prices and foreign exchange rates					
WTI (US \$/bbl)	42.66	40.93	56.96	39.40	57.03
Edmonton Sweet index (US \$/bbl)	38.59	37.42	51.59	34.08	52.15
Saskatchewan LSB index (US \$/bbl)	38.96	37.57	51.58	34.14	52.50
Dated Brent (US \$/bbl)	44.23	43.00	63.25	41.67	64.30
AECO (\$/mcf)	2.64	2.24	2.48	2.23	1.76
NBP (\$/mcf)	6.99	3.67	5.38	4.30	5.90
TTF (\$/mcf)	6.63	3.51	5.36	4.18	5.90
CDN \$/US \$	1.30	1.33	1.32	1.34	1.33
CDN \$/Euro	1.55	1.56	1.46	1.53	1.49
Share information ('000s)					
Shares outstanding - basic	158,724	158,308	156,290	158,724	156,290
Shares outstanding - diluted ⁽¹⁾	165,396	163,800	159,912	165,396	159,912
Weighted average shares outstanding - basic	158,561	158,307	155,950	157,908	154,736
Weighted average shares outstanding - diluted ⁽¹⁾	158,561	158,307	156,180	157,908	156,094

⁽¹⁾ The above table includes non-GAAP financial measures which may not be comparable to other companies. Please see the "Non-GAAP Financial Measures" section of the accompanying Management's Discussion and Analysis.

⁽²⁾ Please refer to Supplemental Table 4 "Production" of the accompanying Management's Discussion and Analysis for disclosure by product type.

Message to Shareholders

Vermilion started 2020 on a strong footing in what appeared to be a constructive outlook for commodity prices. That all changed in mid-February as the effects from the COVID-19 pandemic started to take hold. As we are all too aware now, the pandemic had devastating effects on the global economy and commodity prices. As commodity prices collapsed, we took swift and decisive action, making drastic changes to our business in order to protect the balance sheet and preserve financial liquidity. We reduced our 2020 capital program in March, suspended our dividend in April and, with other cost saving initiatives, reduced over \$550 million combined of annualized cash outflows. In the months following, we made several changes to our executive leadership team and undertook a global organizational review to improve profitability and long-term sustainability. While these collective decisions were difficult to make, we can look back now with confidence and know that they were in the best interests of the Company. Not only did Vermilion successfully navigate this downturn, we have made several structural changes to our business that will improve our long-term sustainability and add value for our shareholders over the coming years.

One of the themes emerging from the COVID-19 pandemic is an increased awareness and focus on environmental, social and governance ("ESG") matters and the energy transition. Vermilion has been focused on ESG for well over a decade and we take great pride in our ESG leadership within the mid-cap energy space. Sustainability is fundamental to our business which is reflected in our consistently strong results and rankings from external ESG agencies, including Vermilion's recent inclusion in The Sustainability Yearbook 2021 based on the SAM (now S&P Global) Corporate Sustainability Assessment. We maintained our disciplined focus on ESG through 2020 despite the challenges caused by COVID-19, and we are committed to progressing our ESG initiatives in the future as we see Vermilion being a key contributor to the energy transition. As such, we are currently developing a comprehensive, long-term ESG strategy that will be fully integrated into our business with clear objectives, including further targets for emissions reductions. This new ESG strategy and associated targets are expected to be in place by mid-2021.

Despite all the challenges in 2020, we still managed to execute a \$367 million exploration and development ("E&D") capital program and deliver annual average production of 95,190 boe/d⁽²⁾ which is slightly above the midpoint of our guidance range of 94,000 to 96,000 boe/d. In 2020, we executed a front-end weighted capital program whereby approximately 65% of our E&D capital was invested in Q1 2020, resulting in peak production of over 100,000 boe/d in Q2 2020 and declining to 87,848 boe/d in Q4 2020. Through our profitability review, we have determined that this allocation of capital is not the most efficient and increases the challenges of managing our production base over time. We have incorporated these learnings into our 2021 budget and are targeting a much more level-loaded capital program in 2021, as was outlined in our budget announcement in January.

The volatile commodity environment in 2020 saw WTI oil prices peak above US\$60/bbl at the beginning of the year and collapse to an unprecedented negative price in April as global storage levels surged following the stay-at-home measures put in place around the world. The WTI benchmark averaged US\$39.40/bbl for 2020, compared to US\$57.03/bbl in 2019. European natural gas prices experienced similar volatility as a result of the pandemic-induced demand destruction. The TTF benchmark traded below C\$2/mcf in May but recovered to over C\$8/mcf by December, averaging \$4.30/mcf for the full year, compared to \$5.90/mcf in 2019. Fortunately, we had the majority of our European conventional natural gas production hedged through the summer months at much higher prices, which offset some of this price weakness.

We generated \$502 million of fund flows from operations ("FFO")⁽¹⁾ in 2020 and \$135 million of free cash flow ("FCF")⁽¹⁾, which more than covered the dividends paid earlier in the year, along with reclamation and abandonment expenditures and minor acquisitions. In Q4 2020, we generated \$135 million of FFO and invested \$60 million of E&D capital, resulting in FCF of \$75 million which went toward debt reduction. After accounting for reclamation and abandonment expenditures and minor acquisitions, we reduced the amount outstanding under our revolving credit facility by approximately \$175 million during the second half of 2020, leaving us with over \$500 million of liquidity available at year-end. Based on the mid-point of our 2021 production and capital expenditure guidance and assuming US\$60/bbl WTI oil prices for the balance of the year, we expect to generate over \$350 million of FCF in 2021, which will be used to further reduce our debt.

It has been a challenging year for the oil and gas industry and Vermilion; however, we are pleased with what our Company has accomplished under the circumstances. While we still have lots of work to do, we believe our Company is on a much stronger footing today and is better positioned for long-term value creation. Vermilion has a world class asset base comprised of highly efficient, low decline conventional oil and natural gas producing assets that generate strong free cash flow. These assets provide risk reducing attributes owing to their global diversification and global commodity exposure, and also provide significant leverage to recovering global commodity prices. In the near-term, all of our free cash flow will be allocated to debt reduction, but as we begin to make more meaningful progress towards our debt targets, we will review our long-term shareholder return policy to determine the appropriate time to reinstate a dividend and/or share buyback program. We would like to thank our shareholders for their ongoing support and look forward to providing further updates on our 2021 program as the year progresses.

We would like to share with you the news that Larry MacDonald, our Lead Director, has recently been awarded the Order of Canada. This award is made to individuals who have demonstrated "outstanding achievement and merit of the highest degree, especially in service to Canada or to humanity at large". This is absolutely a remarkable achievement for Larry and is a reflection of the significant personal contributions he has made for the disadvantaged, not only in Canada but also globally, over his lifetime. Larry has been a member of our Board of Directors since 2002 and we are proud to be associated with such an outstanding individual.

Q4 2020 Operations Review

North America

Production from our North American assets averaged 58,774 boe/d in Q4 2020, a decrease of 10% from the prior quarter primarily due to natural decline. The majority of our 2020 North American drilling program was executed during the first half of the year with limited new production added during the second half of the year. We resumed drilling activity in Alberta in the fourth quarter, drilling seven (6.6 net) Mannville wells and completing two (1.6 net) wells which were brought on production prior to year-end. The remaining five (5.0 net) wells were completed and brought on production in early 2021. No drilling or completion activity occurred in southeast Saskatchewan or Wyoming during the fourth quarter, however we expect to resume drilling in these areas in Q2 2021.

International

Production from our International assets averaged 29,073 in Q4 2020, a decrease of 5% from the prior quarter primarily due to a planned turnaround in Australia and natural decline. In Australia, we successfully completed an 11-day planned maintenance turnaround, which included the tie in of a new sediments management system which is expected to improve facility operating efficiency.

Activity in our European operating areas was primarily focused on maintenance, well work-over activities and planning for the 2021 drilling campaign in the Netherlands, Hungary and Croatia. All drilling permits have been received for our 2021 European drilling campaign, along with the production license for the Burgmoor Z5 well (46% working interest) in Germany which is scheduled to start-up in the second half of 2021. In France, we obtained the necessary authorization for trucking our Paris Basin light crude oil in advance of the Grandpuits refinery closure in Q1 2021. The refinery recently ceased all oil refining operations and we have begun trucking our light crude oil to other refineries in France without any disruption to our field operations. We will continue to evaluate transportation options and remain optimistic we can find a cost effective long-term solution.

2020 Reserve Report

Our 2020 total proved plus probable reserves decreased 7% from the prior year to 467 mmboe⁽³⁾. The decrease is primarily due to lower commodity price assumptions and lower capital activity levels in 2020. Despite these revisions our total proved plus probable reserve life index remains greater than 13 years while our total proved plus probable 3-year F&D operating recycle ratio remains over 2 times, owing to our high netback production base. In an effort to reduce costs, the Company did not complete a resource evaluation this year.

The following table provides a summary of company interest reserves by reserve category and region on an oil equivalent basis. Please refer to Vermilion's 2020 Annual Information Form for the year ending December 31, 2020 ("2020 Annual Information Form") for detailed information by country and product type.

BOE (mboe)	Proved Developed Producing	Proved Developed Non-Producing	Proved Undeveloped	Proved	Probable	Proved Plus Probable
North America	124,376	5,652	79,155	209,183	136,969	346,152
International	60,977	7,112	7,992	76,081	44,370	120,451
Vermilion	185,353	12,764	87,147	285,264	181,339	466,603

The following table summarizes the finding and development costs and associated operating recycle ratios by reserve category for the three-year period ending December 31, 2020:

	3-Year Average		
	PDP	1P	2P
Finding and Development Costs, including FDC (F&D) (\$/boe) ⁽⁴⁾	\$14.83	\$13.74	\$11.79
Finding, Development and Acquisition Costs, including FDC (FD&A) (\$/boe) ⁽⁴⁾	\$20.35	\$19.82	\$15.37
F&D Operating Recycle Ratio (x) ⁽⁵⁾	1.7	1.8	2.1
FD&A Operating Recycle Ratio (x) ⁽⁵⁾	1.2	1.3	1.6

The following table provides a reconciliation of changes in company interest reserves by reserve category and region. Please refer to Vermilion's 2020 Annual Information Form for detailed information by country and product type.

1P (mboe)	North America	International	Vermilion
December 31, 2019	221,979	87,961	309,940
Discoveries	—	—	—
Extensions & improved recovery	18,612	2,265	20,877
Technical revisions	1,701	4,381	6,082
Acquisitions	2,159	—	2,159
Dispositions	(3,679)	—	(3,679)
Economic factors	(7,998)	(7,277)	(15,275)
Production	(23,591)	(11,249)	(34,840)
December 31, 2020	209,183	76,081	285,264

2P (mboe)	North America	International	Vermilion
December 31, 2019	359,828	141,049	500,877
Discoveries	—	—	—
Extensions & improved recovery	17,741	5,131	22,872
Technical revisions	3,080	(1,558)	1,522
Acquisitions	4,302	—	4,302
Dispositions	(4,955)	—	(4,955)
Economic factors	(10,254)	(12,923)	(23,177)
Production	(23,591)	(11,249)	(34,840)
December 31, 2020	346,151	120,450	466,601

Additional information about our 2020 GLJ Reserves Report can be found in our 2020 Annual Information Form on our website at www.vermilionenergy.com and on SEDAR at www.sedar.com.

Commodity Hedging

Vermilion hedges to manage commodity price exposures and increase the stability of our cash flows. In aggregate, as of March 1, 2021, we have 45% of our expected net-of-royalty production hedged for the first half of 2021. With respect to individual commodity products, we have hedged 64% of our European natural gas production, 38% of our oil production, and 46% of our North American natural gas volumes for the first half of 2021, respectively. Please refer to the Hedging section of our website under Invest With Us for further details using the following link:

<https://www.vermilionenergy.com/invest-with-us/hedging.cfm>.

Sustainability

Vermilion continued to build on our track record of industry-leading ESG performance based on rankings by third party ratings agencies in 2020. Vermilion was ranked at the top of our peer group in 2020 in the SAM Corporate Sustainability Assessment ("CSA"). We were also selected for The Sustainability Yearbook 2021, which recognizes that our CSA sustainability performance is within the top 15% of our industry (SAM's Upstream Oil & Gas and Integrated category). During Q4 2020, we also released our 2020 Corporate Sustainability Report, marking our 7th year of ESG reporting. The 2020 report highlights our ongoing focus on reducing emissions within our operations, along with a content index that includes recommendations from the Task Force on Climate-related Financial Disclosures and the Sustainability Accounting Standards Board. The report can be found on our Sustainability micro-site using the following link: <https://sustainability.vermilionenergy.com/>.

(Signed "Lorenzo Donadeo")

Lorenzo Donadeo
Executive Chairman
March 5, 2021

(Signed "Curtis Hicks")

Curtis Hicks
President
March 5, 2021

(1) Non-GAAP Financial Measure. Please see the "Non-GAAP Financial Measures" section of the accompanying Management's Discussion and Analysis.

- ⁽²⁾ Please refer to Supplemental Table 4 "Production" of the accompanying Management's Discussion and Analysis for disclosure by product type.
- ⁽³⁾ Estimated gross proved, developed and producing, total proved, and total proved plus probable reserves as evaluated by GLJ Petroleum Consultants Ltd. ("GLJ") in a report dated February 12, 2021 with an effective date of December 31, 2020 (the "2020 GLJ Reserves Report").
- ⁽⁴⁾ F&D (finding and development) and FD&A (finding, development and acquisition) costs are used as a measure of capital efficiency and are calculated by dividing the applicable capital expenditures for the period, including the change in undiscounted FDC (future development capital), by the change in the reserves, incorporating revisions and production, for the same period.
- ⁽⁵⁾ Operating Recycle Ratio is a measure of capital efficiency calculated by dividing the Operating Netback by the cost of adding reserves (F&D cost). Operating Netback is calculated as sales less royalties, operating expense, transportation costs, PRRT and realized hedging gains and losses presented on a per unit basis.

Management's Discussion and Analysis

The following is Management's Discussion and Analysis ("MD&A"), dated March 5, 2021, of Vermilion Energy Inc.'s ("Vermilion", "we", "our", "us" or the "Company") operating and financial results as at and for the three months and year ended December 31, 2020 compared with the corresponding periods in the prior year.

This discussion should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2020 and 2019, together with the accompanying notes. Additional information relating to Vermilion, including its Annual Information Form, is available on SEDAR at www.sedar.com or on Vermilion's website at www.vermilionenergy.com.

The audited consolidated financial statements for the year ended December 31, 2020 and comparative information have been prepared in Canadian dollars and in accordance with International Financial Reporting Standards ("IFRS" or, alternatively, "GAAP") as issued by the International Accounting Standards Board ("IASB").

This MD&A includes references to certain financial and performance measures which do not have standardized meanings prescribed by IFRS. These measures include:

- **Fund flows from operations:** Fund flows from operations is a measure of profit or loss in accordance with IFRS 8 "Operating Segments". Please see "Segmented Information" in the "Notes to the Consolidated Financial Statements" for a reconciliation of fund flows from operations to net earnings. We analyze fund flows from operations both on a consolidated basis, core region, and on a business unit basis in order to assess the contribution of each business unit to our ability to generate income necessary to pay dividends, repay debt, fund asset retirement obligations, and make capital investments.
- **Net debt:** Net debt is a capital management measure in accordance with IAS 1 "Presentation of Financial Statements". Net debt is comprised of long-term debt plus current liabilities less current assets and represents Vermilion's net financing obligations after adjusting for the timing of working capital fluctuations. Net debt excludes lease obligations which are secured by a corresponding right-of-use asset. Please see "Capital disclosures" in the "Notes to the Consolidated Financial Statements" for additional information.
- **Netbacks:** Netbacks are per boe and per mcf performance measures used in the analysis of operational activities. We assess netbacks both on a consolidated basis and on a business unit basis in order to compare and assess the operational and financial performance of each business unit versus other business units and also versus third-party crude oil and natural gas producers.

In addition, this MD&A includes references to certain financial measures which are not specified, defined, or determined under IFRS and are therefore considered non-GAAP financial measures. These non-GAAP financial measures are unlikely to be comparable to similar financial measures presented by other issuers. For a full description of these non-GAAP financial measures and a reconciliation of these measures to their most directly comparable GAAP measures, please refer to "Non-GAAP Financial Measures".

Product Type Disclosure

Under National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities", disclosure of production volumes should include segmentation by product type as defined in the instrument. In this report, references to "crude oil" mean "light crude oil and medium crude oil" and references to "natural gas" mean "conventional natural gas".

In addition, in Supplemental Table 4 "Production", Vermilion provides a reconciliation from total production volumes to product type and also a reconciliation of "crude oil and condensate" and "NGLs" to the product types "light crude oil and medium crude oil" and "natural gas liquids".

Production volumes reported are based on quantities as measured at the first point of sale.

Guidance

On October 31, 2019, we released our 2020 capital budget and associated production guidance. On March 16, 2020, we announced a reduction of our 2020 capital budget and associated production guidance in response to a decrease in oil prices as a result of the coronavirus ("COVID-19") pandemic and the ensuing oil price war between OPEC+ members. On November 9, 2020, we reduced the upper end of our annual production guidance range to reflect revised production estimates, which take into account the deferred startup of new natural gas production in the Netherlands to take advantage of higher European natural gas prices during the winter months. Actual 2020 capital spending of \$367 million and 2020 average production of 95,190 boe/d were both slightly above the midpoint of our guidance ranges.

On January 18, 2021, we released our 2021 capital budget and associated production guidance.

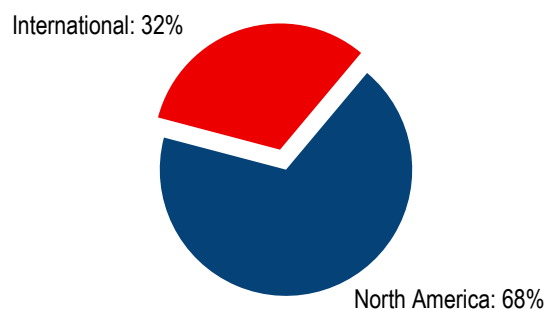
The following table summarizes our guidance:

	Date	Capital Expenditures (\$MM)	Production (boe/d)
2020 Guidance			
2020 Guidance	October 31, 2019	450	100,000 to 103,000
2020 Guidance	March 16, 2020	350 to 370	94,000 to 98,000
2020 Guidance	November 9, 2020	350 to 370	94,000 to 96,000
2020 Actual Results	March 8, 2021	367	95,190
2021 Guidance			
2021 Guidance	January 18, 2021	300	83,000 to 85,000

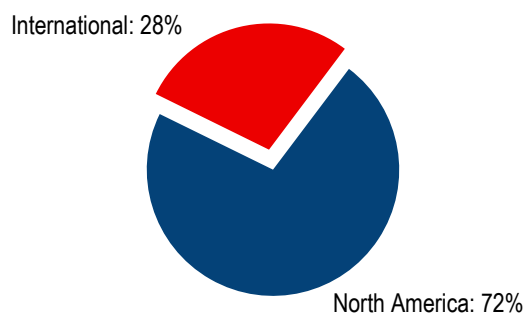
Vermilion's Business

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

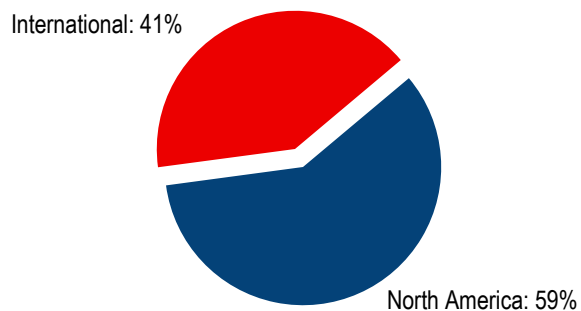
2020 production of 95,190 boe/d



2020 capital expenditures of \$367MM



2020 fund flows from operations of \$502MM



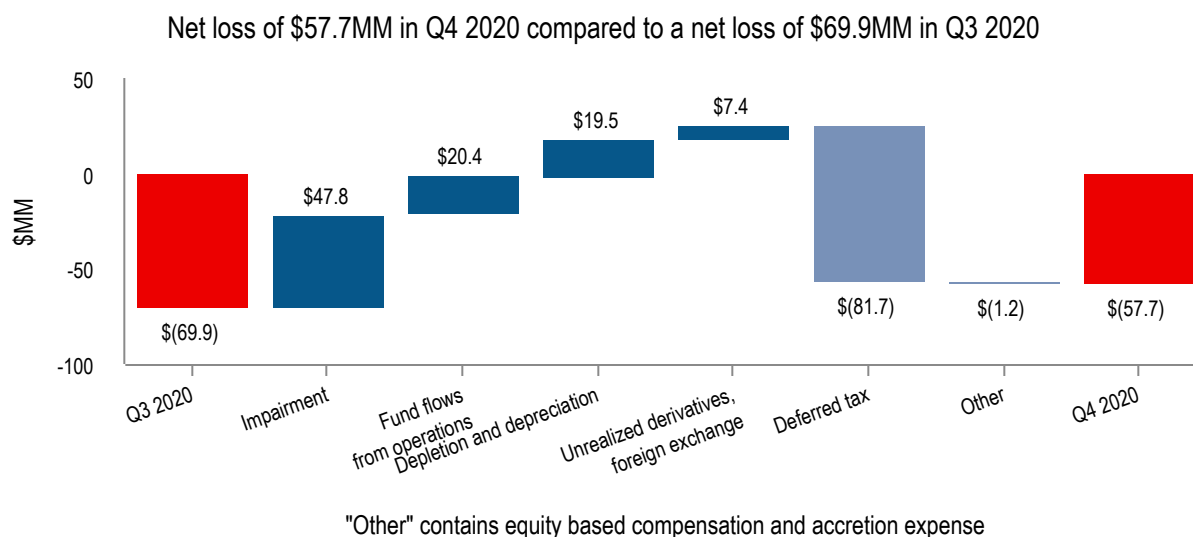
Consolidated Results Overview

	Q4 2020	Q3 2020	Q4 2019	Q4/20 vs. Q3/20	Q4/20 vs. Q4/19	2020	2019	2020 vs. 2019
Production ⁽¹⁾								
Crude oil and condensate (bbls/d)	40,555	43,240	46,261	(6)%	(12)%	43,421	47,902	(9)%
NGLs (bbls/d)	8,627	9,509	8,160	(9)%	6%	8,937	7,984	12%
Natural gas (mmcf/d)	232.00	256.34	260.72	(10)%	(11)%	256.99	266.82	(4)%
Total (boe/d)	87,848	95,471	97,875	(8)%	(10)%	95,190	100,357	(5)%
(Draw) build in inventory (mbbls)	(118)	(68)	169			(260)	(12)	
Financial metrics								
Fund flows from operations (\$M)	135,212	114,776	215,592	18%	(37)%	502,065	908,055	(45)%
Per share (\$/basic share)	0.85	0.73	1.38	16%	(38)%	3.18	5.87	(46)%
Net (loss) earnings (\$M)	(57,707)	(69,926)	1,477	(18)%	N/A	(1,517,427)	32,799	N/A
Per share (\$/basic share)	(0.36)	(0.44)	0.01	(18)%	N/A	(9.61)	0.21	N/A
Net debt (\$M)	2,105,983	2,136,219	1,993,194	(1)%	6%	2,105,983	1,993,194	6%
Cash dividends (\$/share)	—	—	0.690	—%	(100)%	0.575	2.760	(79)%
Activity								
Capital expenditures (\$M)	59,894	31,330	100,625	91%	(41)%	367,202	523,164	(30)%
Acquisitions (\$M)	4,821	6,720	9,165			25,810	38,472	

⁽¹⁾ Please refer to Supplemental Table 4 "Production" for disclosure by product type.

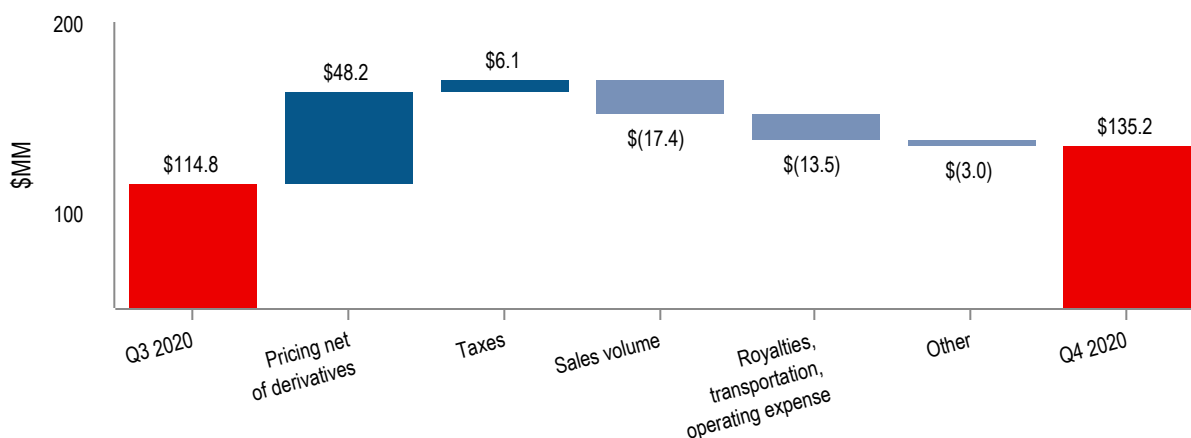
Financial performance review

Q4 2020 vs. Q3 2020



- We recorded a net loss of \$57.7 million (\$0.36/basic share) in Q4 2020 compared to a net loss of \$69.9 million (\$0.44/basic share) in Q3 2020. This quarter-over-quarter decrease in net loss was primarily driven by decreased impairment charges in Q4 2020, increased funds flow from operations, and lower depletion and depreciation charges, partially offset by an increase in deferred taxes.

Fund flows from operations of \$135.2MM in Q4 2020 compared \$114.8MM in Q3 2020

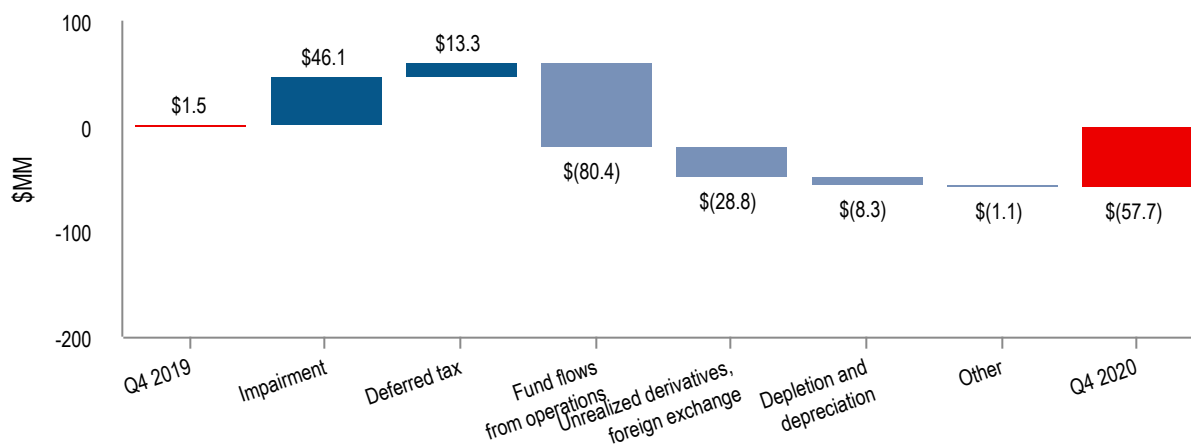


"Other" contains general and administration, interest, and realized foreign exchange

- Fund flows from operations for Q4 2020 increased versus Q3 2020 from \$114.8 million to \$135.2 million primarily driven by realized commodity pricing which increased 21% from \$31.86/boe to \$38.57/boe. This was partially offset by lower sales volumes mainly due to decreased production in Q4 2020 driven by natural decline.

Q4 2020 vs. Q4 2019

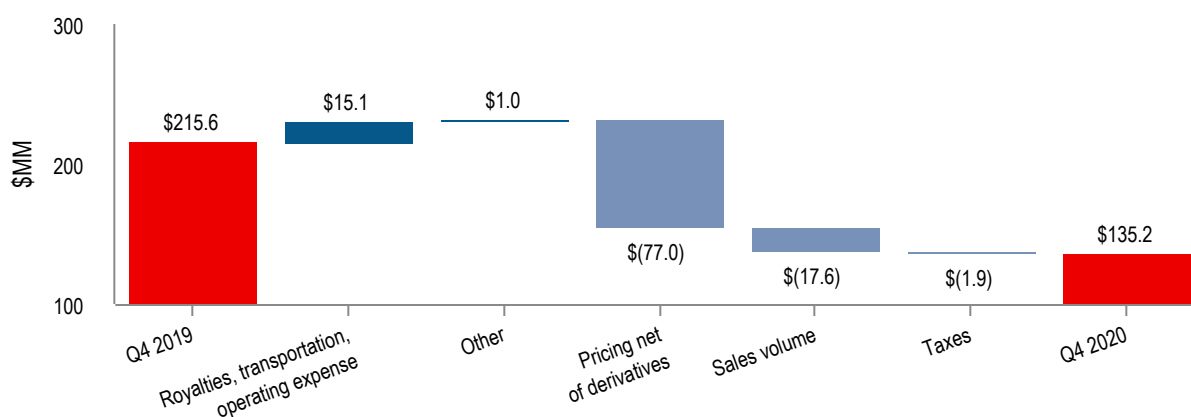
Net loss of \$57.7MM in Q4 2020 compared to net earnings of \$1.5MM in Q4 2019



"Other" contains equity based compensation and accretion expense

- We recorded a net loss of \$57.7 million (\$0.36/basic share) for Q4 2020 compared to net earnings of \$1.5 million (\$0.01/basic share) in Q4 2019. The decrease was primarily driven by lower fund flows from operations of \$80.4 million due to lower commodity prices in 2020, partially offset by lower impairment charges compared to Q4 2019.

Fund flows from operations of \$135.2MM in Q4 2020 compared to \$215.6MM in Q4 2019

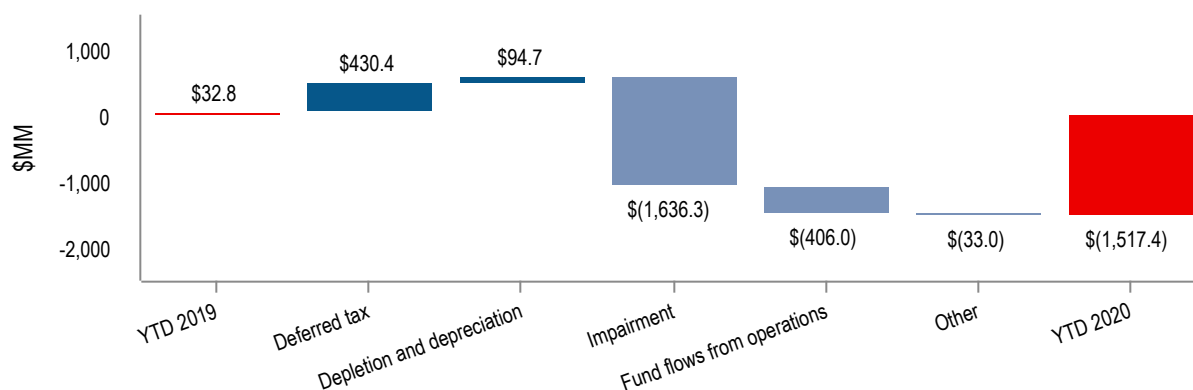


"Other" contains general and administration, interest, and realized foreign exchange

- We generated fund flows from operations of \$135.2 million in Q4 2020, a decrease from \$215.6 million in Q4 2019 primarily as a result of lower commodity prices and lower sales volumes primarily due to natural decline on our production. Our consolidated realized price per boe decreased from \$44.00/boe in Q4 2019 to \$38.57/boe in Q4 2020.

2020 vs. 2019

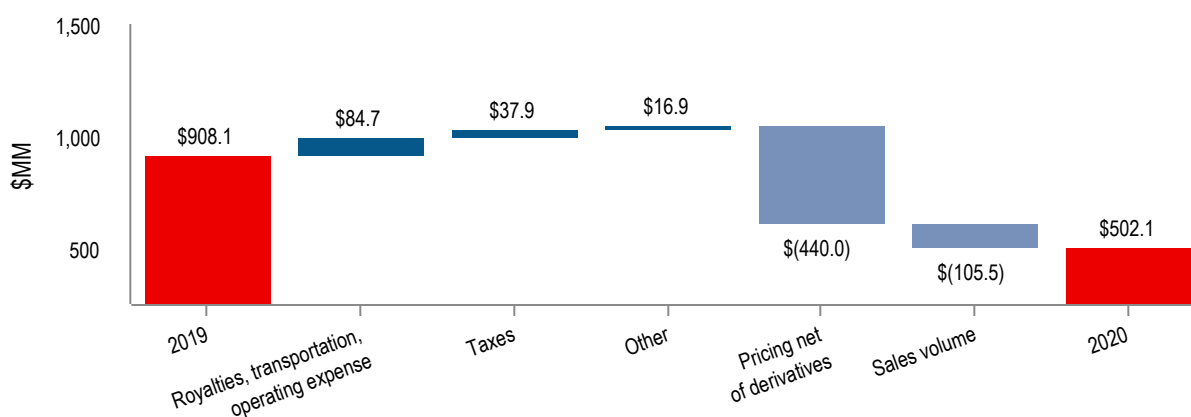
Net loss of \$1,517.4MM in 2020 compared to net earnings of \$32.8MM in 2019



"Other" contains equity based compensation, accretion, unrealized derivative instruments and unrealized foreign exchange

- For the year ended December 31, 2020, a net loss of \$1,517.4 million was recorded compared to net earnings of \$32.8 million for the comparable period in 2019. The decrease in net earnings was primarily due to impairment charges we recorded of \$1.2 billion in 2020 (net of \$0.4 billion income tax recovery) and lower fund flows from operations driven by decreases in realized prices due to the impacts of COVID-19 and the OPEC+ price war.

Fund flows from operations of \$502.1MM in 2020 compared to \$908.1MM in 2019



"Other" contains general and administration, interest, and realized foreign exchange

- Fund flows from operations decreased by 45% for the year ended December 31, 2020 versus the same period in 2019 primarily driven by a 31% decrease in our consolidated realized price from \$46.12/boe to \$31.90/boe due to lower commodity prices. Sales volumes decreased year-over-year primarily due to decreases in France stemming from the confinement measures in 2020 and resulting refinery shut-down, in Ireland as a result of natural decline, and in Australia due to timing of liftings.

Production review

Q4 2020 vs. Q3 2020

- Consolidated average production of 87,848 boe/d during Q4 2020 represented a decrease of 8% from Q3 2020 production of 95,471 boe/d. Production decreases in Canada of 5,416 boe/d and in the United States of 796 boe/d were primarily driven by natural declines, and in Australia of 768 boe/d due to 11-day planned turnaround activities.

Q4 2020 vs. Q4 2019

- Consolidated average production of 87,848 boe/d in Q4 2020 represented a decrease of 10% from Q4 2019 production of 97,875 boe/d. Production decreases in Canada of 4,753 boe/d, in Ireland of 1,256 boe/d and in France of 1,009 boe/d were mainly due to natural declines.

2020 vs. 2019

- Consolidated average production of 95,190 boe/d for the year ended December 31, 2020 represented a decrease of 5% from the comparable period in 2019 of 100,357 boe/d. Production decreases were primarily in France due to the Grandpuits refinery temporary shutdown in Q2 2020, in Ireland due to natural declines and planned turnarounds, in Australia due to downtime throughout 2020 and cyclone activity in Q1 2020 and in Canada due to natural declines. These decreases were partially offset by production increases in the United States due to new wells brought online in 2019 and 2020.

Activity review

- For the three months ended December 31, 2020, capital expenditures of \$59.9 million were incurred.
- In our North America core region, capital expenditures of \$33.8 million were incurred during the fourth quarter. In Canada, \$32.9 million was incurred primarily related to increased drilling activity where we drilled seven (6.6 net) wells.
- In our International core region, capital expenditures of \$26.1 million were incurred during the quarter. \$12.8 million of capital expenditures were incurred in France primarily related to increased activity on well workovers and facilities, \$4.4 million were incurred in Australia primarily related to asset optimization projects, \$3.4 million were in the Netherlands primarily related to workovers and facility projects, and \$3.1 million in Germany primarily related to various field optimization projects.

Sustainability review

Dividends

- On March 6, 2020, in response to weakness in commodity prices and reduced global economic prospects following the outbreak of COVID-19, Vermilion's board of directors approved a 50% reduction to the March dividend, payable April 15, 2020, to \$0.115 per share. On April 15, due to further deterioration of economic prospects and commodity prices resulting from the impact of COVID-19, the board of directors suspended the monthly dividend as a further measure to strengthen the financial position of the Company.
- Total dividends of \$0.575 per common share were declared for the year ended December 31, 2020.

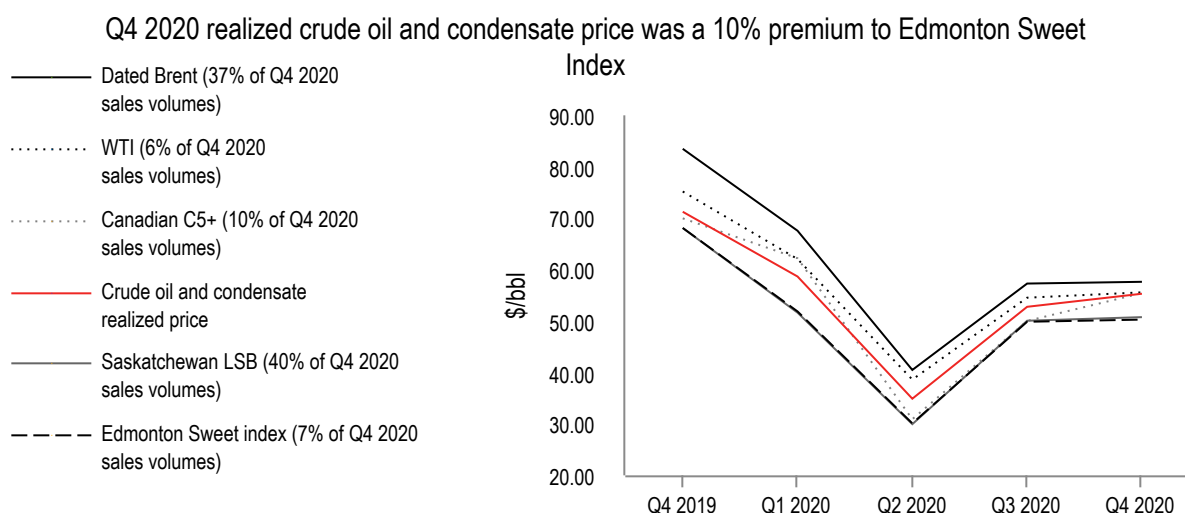
Long-term debt and net debt

- Long-term debt remained consistent at \$1.9 billion as at December 31, 2020 from December 31, 2019.
- Net debt increased to \$2.1 billion as at December 31, 2020 from \$2.0 billion as at December 31, 2019, primarily due to a decrease in net working capital driven by the change in the mark-to-market position of our European gas derivative instruments and our equity swap position moving into current liabilities.
- The ratio of net debt to four quarter trailing fund flows from operations increased to 4.19 as at December 31, 2020 (December 31, 2019 - 2.20) mainly due to lower four quarter trailing fund flows from operations as a result of lower commodity prices, combined with an increase in net debt.

Benchmark Commodity Prices

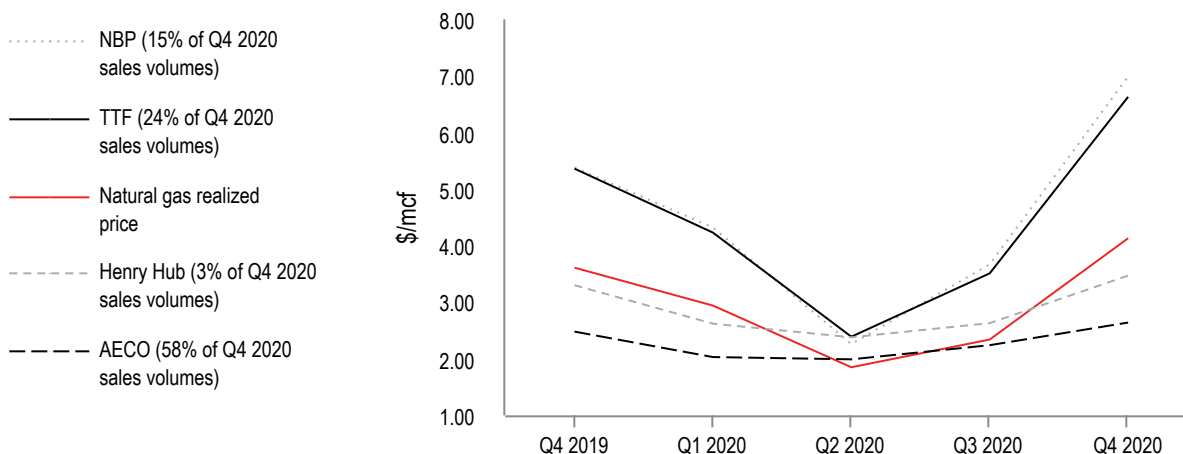
	Q4 2020	Q3 2020	Q4 2019	Q4/20 vs. Q3/20	Q4/20 vs. Q4/19	2020	2019	2020 vs. 2019
Crude oil								
WTI (\$/bbl)	55.58	54.54	75.19	2%	(26)%	52.86	75.67	(30)%
WTI (US \$/bbl)	42.66	40.93	56.96	4%	(25)%	39.40	57.03	(31)%
Edmonton Sweet index (\$/bbl)	50.28	49.86	68.10	1%	(26)%	45.72	69.19	(34)%
Edmonton Sweet index (US \$/bbl)	38.59	37.42	51.59	3%	(25)%	34.08	52.15	(35)%
Saskatchewan LSB index (\$/bbl)	50.76	50.06	68.09	1%	(26)%	45.80	69.66	(34)%
Saskatchewan LSB index (US \$/bbl)	38.96	37.57	51.58	4%	(25)%	34.14	52.50	(35)%
Canadian C5+ Condensate index (\$/bbl)	55.43	50.02	69.97	11%	(21)%	49.85	70.13	(29)%
Canadian C5+ Condensate index (US \$/bbl)	42.54	37.54	53.01	13%	(20)%	37.16	52.86	(30)%
Dated Brent (\$/bbl)	57.63	57.29	83.49	1%	(31)%	55.90	85.31	(35)%
Dated Brent (US \$/bbl)	44.23	43.00	63.25	3%	(30)%	41.67	64.30	(35)%
Natural gas								
AECO (\$/mcf)	2.64	2.24	2.48	18%	7%	2.23	1.76	27%
NBP (\$/mcf)	6.99	3.67	5.38	91%	30%	4.30	5.90	(27)%
NBP (€/mcf)	4.50	2.36	3.68	91%	22%	2.81	3.97	(29)%
TTF (\$/mcf)	6.63	3.51	5.36	89%	24%	4.18	5.90	(29)%
TTF (€/mcf)	4.27	2.25	3.67	90%	16%	2.74	3.97	(31)%
Henry Hub (\$/mcf)	3.47	2.63	3.30	32%	5%	2.78	3.49	(20)%
Henry Hub (US \$/mcf)	2.66	1.97	2.50	35%	6%	2.07	2.63	(21)%
Average exchange rates								
CDN \$/US \$	1.30	1.33	1.32	(2)%	(2)%	1.34	1.33	1%
CDN \$/Euro	1.55	1.56	1.46	(1)%	6%	1.53	1.49	3%
Realized prices								
Crude oil and condensate (\$/bbl)	55.31	52.77	71.25	5%	(22)%	50.53	74.42	(32)%
NGLs (\$/bbl)	19.20	15.04	14.63	28%	31%	13.06	13.61	(4)%
Natural gas (\$/mcf)	4.13	2.34	3.61	77%	14%	2.77	3.58	(23)%
Total (\$/boe)	38.57	31.86	44.00	21%	(12)%	31.90	46.12	(31)%

As an internationally diversified producer, we are exposed to a range of commodity prices. In our North America core region, our crude oil is sold at benchmarks linked to WTI (including the Edmonton Sweet index, the Saskatchewan LSB index, and the Canadian C5+ index) and our natural gas is sold at the AECO index (in Canada) or the Henry Hub index (in the United States). In our International core region, our crude oil is sold with reference to Dated Brent and our natural gas is sold with reference to NBP, TTF, or indices highly correlated to TTF.



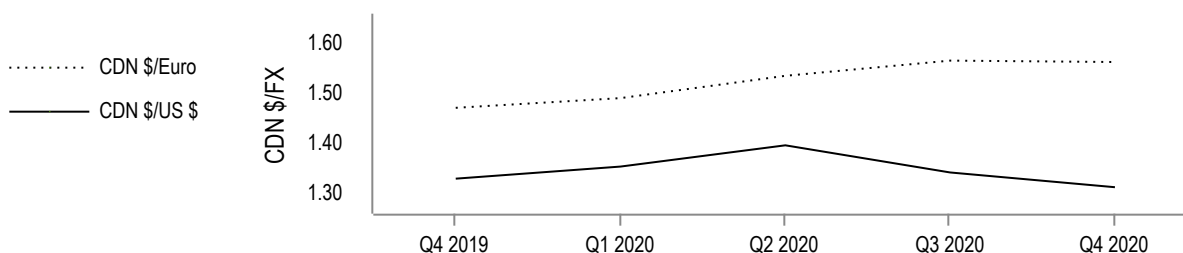
- Crude oil prices increased in Q4 2020 relative to Q3 2020 due to continued global demand recovery, a coordinated supply cut from the OPEC+ group, and lower US shale production, with WTI and Brent prices rising quarter-over-quarter by 4% and 3% respectively. For the three months ended December 31, 2020, WTI and Brent prices decreased by 25% and 30%, respectively, versus the comparable period in the prior year.
- In Canadian dollar terms, quarter-over-quarter, the Edmonton Sweet differential increased by \$0.62/bbl to a discount of \$5.30/bbl against WTI, and the Saskatchewan LSB differential increased by \$0.34/bbl to a discount of \$4.82/bbl against WTI.
- Approximately 37% of Vermilion's Q4 2020 crude oil and condensate production was priced at the Dated Brent index (which averaged a premium to WTI of US\$1.57/bbl), while the remainder of our crude oil and condensate production was priced at the Saskatchewan LSB, Canadian C5+, Edmonton Sweet, and WTI indices.

Q4 2020 realized natural gas price



- In Canadian dollar terms, prices for European natural gas (TTF and NBP) rose by 89% and 91%, respectively, in Q4 2020 compared to Q3 2020. Seasonal demand and competition for LNG cargoes improved prices.
- Natural gas prices at AECO in Q4 2020 increased by 18% compared to Q3 2020, with seasonal demand and export increases improving prices.
- For Q4 2020, average European natural gas prices represented a \$4.17/mcf premium to AECO. Approximately 39% of our natural gas production in Q4 2020 benefited from this premium European pricing.

Quarter-over-quarter, the Canadian dollar strengthened versus the USD and weakened versus the Euro



- For the three months ended December 31, 2020, the Canadian dollar strengthened 2% against the US dollar quarter-over-quarter. The annual average in 2020 was 1% weaker versus 2019.
- For the three months ended December 31, 2020, the Canadian dollar remained flat against the Euro quarter-over-quarter. The annual average in 2020 was 3% weaker versus 2019.

North America

	Q4 2020	Q4 2019	2020	2019
Production ⁽¹⁾				
Crude oil and condensate (bbls/d)	26,459	30,560	29,043	30,798
NGLs (bbls/d)	8,628	8,161	8,937	7,984
Natural gas (mmcf/d)	142.13	153.34	158.85	155.24
Total production volume (boe/d)	58,774	64,276	64,456	64,654

⁽¹⁾ Please refer to Supplemental Table 4 "Production" for disclosure by product type.

	Q4 2020		Q4 2019		2020		2019	
	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe
Sales	175,808	32.51	229,782	38.86	635,637	26.94	903,434	38.28
Royalties	(19,670)	(3.64)	(29,443)	(4.98)	(72,407)	(3.07)	(112,785)	(4.78)
Transportation	(10,358)	(1.92)	(10,384)	(1.76)	(42,843)	(1.82)	(41,261)	(1.75)
Operating	(59,162)	(10.94)	(65,927)	(11.15)	(236,704)	(10.03)	(259,160)	(10.98)
General and administration ⁽¹⁾	(10,484)	(1.94)	(5,745)	(0.97)	(29,784)	(1.26)	(20,368)	(0.86)
Corporate income tax recovery (expense) ⁽¹⁾	241	0.04	(660)	(0.11)	(202)	(0.01)	(406)	(0.02)
Fund flows from operations	76,375	14.12	117,623	19.89	253,697	10.75	469,454	19.89
Capital expenditures	(33,781)		(69,775)		(265,261)		(350,940)	
Free cash flow	42,594		47,848		(11,564)		118,514	

⁽¹⁾ Includes amounts from Corporate segment.

In North America, production averaged 58,774 boe/d in Q4 2020, a decrease of 9% year-over-year primarily due to natural decline and reduced capital activity. For the year-ended 2020, annual average production remained relatively consistent compared to the prior year as decreases in Canada due to natural declines were partially offset by production increases in the United States due to new wells brought online in 2019 and 2020.

We resumed drilling activity in Alberta in the fourth quarter, drilling seven (6.6 net) Mannville wells and completing two (1.6 net) wells that were brought on production prior to year-end. The remaining five (5.0 net) wells were completed and brought on production in early 2021. No drilling or completion activity occurred in southeast Saskatchewan or Wyoming during the fourth quarter.

Sales

	Q4 2020		Q4 2019		2020		2019	
	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe
Canada	160,719	32.45	206,897	38.38	569,191	26.38	828,070	37.82
United States	15,089	33.24	22,885	43.77	66,446	32.93	75,364	44.17
North America	175,808	32.51	229,782	38.86	635,637	26.94	903,434	38.28

Sales in North America decreased for the three months and year ended December 31, 2020 versus the comparable prior periods due to lower benchmark prices across all products as a result of the ongoing COVID-19 pandemic and OPEC+ price war in the first quarter of 2020.

Royalties

	Q4 2020		Q4 2019		2020		2019	
	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe
Canada	(15,240)	(3.08)	(24,127)	(4.48)	(54,961)	(2.55)	(94,079)	(4.30)
United States	(4,430)	(9.76)	(5,316)	(10.17)	(17,446)	(8.65)	(18,706)	(10.96)
North America	(19,670)	(3.64)	(29,443)	(4.98)	(72,407)	(3.07)	(112,785)	(4.78)

Royalties in North America decreased for the three months and year ended December 31, 2020 versus the same periods in the prior year and were primarily due to lower crude oil and condensate pricing within Canada.

Transportation

	Q4 2020		Q4 2019		2020		2019	
	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe
Canada	(9,987)	(2.02)	(10,384)	(1.93)	(41,494)	(1.92)	(41,261)	(1.88)
United States	(371)	(0.82)	—	—	(1,349)	(0.67)	—	—
North America	(10,358)	(1.92)	(10,384)	(1.76)	(42,843)	(1.82)	(41,261)	(1.75)

Transportation expense in North America remained relatively consistent on a dollar and per boe basis for the three months and year ended December 31, 2020 versus the comparable prior periods. During spring 2020, our United States business unit began transporting production on select wells via pipeline resulting in transportation costs.

Operating expense

	Q4 2020		Q4 2019		2020		2019	
	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe
Canada	(54,725)	(11.05)	(60,931)	(11.30)	(218,596)	(10.13)	(242,790)	(11.09)
United States	(4,437)	(9.77)	(4,996)	(9.56)	(18,108)	(8.97)	(16,370)	(9.59)
North America	(59,162)	(10.94)	(65,927)	(11.15)	(236,704)	(10.03)	(259,160)	(10.98)

Operating expenses in North America for the three months and year ended December 31, 2020 decreased by 10.3% and 8.7%, respectively, versus the comparable prior periods. This decrease in Q4 2020 versus Q4 2019 is primarily due to lower activity levels and a reduction in headcount costs in Q4 2020 as we focus on cost reduction initiatives. Year-over-year, the decrease is primarily in Canada due to a deferral of facility costs, lower headcount costs, lower utility costs, and other cost reductions initiatives. The focus on cost reduction initiatives in 2020 in response to global commodity price pressures helped contribute to the 8.7% decrease on a per unit basis for the year ended December 31, 2020 compared to prior year.

International

	Q4 2020	Q4 2019	2020	2019
Production ⁽¹⁾				
Crude oil and condensate (bbls/d)	14,096	15,702	14,376	17,105
Natural gas (mmcf/d)	89.86	107.38	98.15	111.58
Total production volume (boe/d)	29,073	33,598	30,734	35,703
Total sales volume (boe/d)	30,336	31,760	31,444	35,737

⁽¹⁾ Please refer to Supplemental Table 4 "Production" for disclosure by product type.

	Q4 2020		Q4 2019		2020		2019	
	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe
Sales	140,390	50.30	159,020	54.42	483,908	42.05	786,429	60.29
Royalties	(8,438)	(3.02)	(11,236)	(3.85)	(34,147)	(2.97)	(50,881)	(3.90)
Transportation	(6,699)	(2.40)	(5,186)	(1.77)	(24,868)	(2.16)	(31,185)	(2.39)
Operating	(47,414)	(16.99)	(44,656)	(15.28)	(180,547)	(15.69)	(180,918)	(13.87)
General and administration	(8,158)	(2.92)	(10,824)	(3.70)	(31,056)	(2.70)	(38,608)	(2.96)
Corporate income tax recovery (expense)	6,291	2.25	6,495	2.22	6,012	0.52	(25,877)	(1.98)
PRRT	(4,038)	(1.45)	(1,453)	(0.50)	(20,151)	(1.75)	(25,947)	(1.99)
Fund flows from operations	71,934	25.77	92,160	31.54	199,151	17.30	433,013	33.20
Capital expenditures	(26,113)		(30,850)		(101,941)		(172,224)	
Free cash flow	45,821		61,310		97,210		260,789	

Production from our International assets averaged 29,073 boe/d in Q4 2020, a decrease of 13% year-over-year primarily due to natural decline. For the year-ended December 31, 2020, our production in Europe was impacted by lower crude oil production in France resulting from COVID-19 confinement measures impacting workover activities and the temporary shutdown of the Grandpuits refinery during Q2, in addition to production declines in Netherlands, Germany, and Ireland. In Australia, we completed an 11-day planned maintenance turnaround during Q4 2020, which also contributed to the production decrease.

The year-over-year production decrease from our International assets, along with significant decline in reference prices, resulted in decreases in sales and correspondingly fund flows from operations. However, given our continued focus on cost reductions across the business, such as operating costs, general and administration expenses, and capital expenditures, we continued to generate free cash flow from our international assets.

Sales

	Q4 2020		Q4 2019		2020		2019	
	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe
Australia	30,148	75.99	21,872	68.63	141,452	76.70	184,490	93.33
France	53,198	58.11	77,781	53.55	182,292	55.39	326,699	83.01
Netherlands	22,967	34.40	25,215	33.88	65,575	23.02	112,857	37.37
Germany	10,681	39.87	11,531	39.14	34,210	30.40	57,312	45.75
Ireland	23,118	43.38	21,824	33.65	58,446	25.59	104,274	36.81
Central and Eastern Europe	278	27.22	797	31.39	1,933	16.66	797	31.19
International	140,390	50.30	159,020	54.42	483,908	42.05	786,429	60.29

As a result of changes in inventory levels, our sales volumes for crude oil in Australia, France, and Germany may differ from our production volumes in those business units. The following table provides the crude oil sales volumes (consisting entirely of "light crude oil and medium crude oil") for those jurisdictions.

Crude oil sales volumes (bbls/d)	Q4 2020	Q4 2019	2020	2019
Australia	4,312	2,691	5,039	5,416
France	9,951	10,454	8,991	10,752
Germany	996	629	967	881

Sales decreased by \$18.6 million for the three months ended December 31, 2020 versus the same period in the prior year primarily due to lower sales volumes across our European business units driven by natural decline of our production and a decline in realized pricing on our crude oil. These sales decreases were partially offset by an increase in realized pricing on our European gas sales and an increase in sales volumes in Australia due to the timing of our liftings.

Sales decreased by \$302.5 million for the year ended December 31, 2020 versus the same period in the prior year due to significant decreases in realized prices driven by lower year-over-year commodity prices, including severely depressed commodity prices during second quarter of 2020. In addition to pricing decreases, sales volumes were down primarily due to natural decline across all areas and production decreases in France following downtime at the Grandpuits refinery and restricted field activity resulting from COVID-19 confinement measures put in place by the French government.

Royalties

	Q4 2020		Q4 2019		2020		2019	
	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe
France	(9,416)	(10.28)	(10,265)	(9.73)	(32,069)	(9.75)	(43,895)	(11.15)
Netherlands	(150)	(0.22)	(130)	(0.17)	(444)	(0.16)	(1,469)	(0.49)
Germany	1,190	4.44	(587)	(1.99)	(990)	(0.88)	(5,264)	(4.20)
Central and Eastern Europe	(62)	(6.07)	(254)	(10.00)	(644)	(5.55)	(253)	(9.90)
International	(8,438)	(3.02)	(11,236)	(3.85)	(34,147)	(2.97)	(50,881)	(3.90)

Royalties in our International core region are primarily incurred in France, where royalties include charges based on a percentage of sales and fixed per boe charges. Royalties decreased in our International core region in the three months and year ended December 31, 2020 versus the same periods in the prior year due to lower sales prices in France and Netherlands combined with the full year impact of a ruling reducing 2020 Germany gas royalties recorded in the fourth quarter.

Our production in Australia and Ireland is not subject to royalties.

Transportation

	Q4 2020		Q4 2019		2020		2019	
	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe
France	(4,264)	(4.66)	(3,215)	(4.23)	(14,604)	(4.44)	(21,609)	(5.49)
Germany	(1,537)	(5.74)	(963)	(3.27)	(5,839)	(5.19)	(5,117)	(4.09)
Ireland	(898)	(1.68)	(1,008)	(1.55)	(4,425)	(1.94)	(4,459)	(1.57)
International	(6,699)	(2.40)	(5,186)	(1.77)	(24,868)	(2.16)	(31,185)	(2.39)

Transportation expense for the three months ended December 31, 2020 increased versus the same period in 2019 due to increased costs related to transportation system maintenance in France.

For the year ended December 31, 2020, transportation expense decreased versus the same period in 2019 due mainly to lower costs in France. In France, the year-over-year decrease was due to additional costs incurred in 2019 relating to the Grandpuits refinery outage which resulted in the need to arrange alternative delivery points and transportation methods at a higher incremental cost. In Germany, the changes related to the timing of prior period adjustments.

Our production in Australia, Netherlands and Central and Eastern Europe is not subject to transportation expense.

Operating expense

	Q4 2020		Q4 2019		2020		2019	
	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe
Australia	(14,438)	(36.39)	(8,438)	(34.09)	(54,581)	(29.59)	(49,810)	(25.20)
France	(16,230)	(17.73)	(16,142)	(16.38)	(57,128)	(17.36)	(61,281)	(15.57)
Netherlands	(7,772)	(11.64)	(9,758)	(13.11)	(32,410)	(11.38)	(32,125)	(10.64)
Germany	(5,643)	(21.07)	(7,405)	(25.14)	(20,732)	(18.42)	(24,970)	(19.93)
Ireland	(3,232)	(6.06)	(2,854)	(4.40)	(15,232)	(6.67)	(12,431)	(4.39)
Central and Eastern Europe	(99)	(9.69)	(59)	(2.32)	(464)	(4.00)	(301)	(11.78)
International	(47,414)	(16.99)	(44,656)	(15.28)	(180,547)	(15.69)	(180,918)	(13.87)

Operating expenses for Q4 2020 increased by \$2.8 million compared to Q4 2019. This is mainly due to increased costs in Australia where operating expenses are deferred on the balance sheet until oil is sold at which point the related expenses are recognized into income. Q4 2019 had a larger build of inventory compared to the draws made in Q4 2020, therefore higher costs related to inventory were incurred in Q4 2020. This increase was partially offset by lower activity levels in Germany and lower facility maintenance and repair costs in the Netherlands.

For the year ended December 31, 2020, operating expenses remained relatively consistent on a dollar basis and increased by 13.1% on a per boe basis. Cost reductions were due to reduced activity in France during the COVID-19 confinement period earlier in 2020 and lower activity levels in Germany. This was offset by increased costs in Australia resulting from a higher deferral of costs relating to inventory builds on the balance sheet in 2019 offset by lower major project expense work. Cost increases in Ireland were due to increased maintenance activity.

Consolidated Financial Performance Review

(\$M except per share)	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
Total assets	4,109,139	5,866,120	6,270,671
Long-term debt	1,933,848	1,924,665	1,796,207
Petroleum and natural gas sales	1,119,545	1,689,863	1,678,117
Net (loss) earnings	(1,517,427)	32,799	271,650
Net (loss) earnings per share			
Basic	(9.61)	0.21	1.93
Diluted	(9.61)	0.21	1.91
Cash dividends (\$/share)	0.58	2.76	2.72

Fund flows from operations

	Q4 2020		Q4 2019		2020		2019	
	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe
Sales	316,198	38.57	388,802	44.00	1,119,545	31.90	1,689,863	46.12
Royalties	(28,108)	(3.43)	(40,679)	(4.60)	(106,554)	(3.04)	(163,666)	(4.47)
Transportation	(17,057)	(2.08)	(15,570)	(1.76)	(67,711)	(1.93)	(72,446)	(1.98)
Operating	(106,576)	(13.00)	(110,583)	(12.52)	(417,251)	(11.89)	(440,078)	(12.01)
General and administration	(18,642)	(2.27)	(16,569)	(1.88)	(60,840)	(1.73)	(58,976)	(1.61)
Corporate income tax recovery (expense)	6,532	0.80	5,835	0.66	5,810	0.17	(26,283)	(0.72)
PRRT	(4,038)	(0.49)	(1,453)	(0.16)	(20,151)	(0.57)	(25,947)	(0.71)
Interest expense	(19,808)	(2.42)	(19,169)	(2.17)	(75,077)	(2.14)	(81,377)	(2.22)
Realized gain on derivatives	790	0.10	22,712	2.57	109,093	3.11	84,219	2.30
Realized foreign exchange gain (loss)	1,329	0.16	2,013	0.23	11,110	0.32	(4,954)	(0.14)
Realized other income	4,592	0.56	253	0.03	4,091	0.12	7,700	0.21
Fund flows from operations	135,212	16.50	215,592	24.40	502,065	14.32	908,055	24.77

Fluctuations in fund flows from operations may occur as a result of changes in production levels, commodity prices, and costs to produce petroleum and natural gas. In addition, fund flows from operations may be affected by the timing of crude oil shipments in Australia and France. When crude oil inventory is built up, the related operating expense, royalties, and depletion expense are deferred and carried as inventory on the consolidated balance sheet. When the crude oil inventory is subsequently drawn down, the related expenses are recognized.

General and administration

- General and administration expense increased by 11.1% in Q4 2020 versus Q4 2019 due to lower recoveries as a result of lower salary allocations from reduced capital activity in Q4 2020 and costs associated with work-force reductions.
- General and administration expense for the year ended December 31, 2020 were relatively consistent with 2019 as cost savings and government subsidies recorded during the year were offset by higher employee costs incurred in 2020 and lower capitalized costs.

PRRT and corporate income taxes

- PRRT increased in Q4 2020 versus Q4 2019 due to higher sales. For the year ended December 31, 2020, PRRT decreased versus the prior year comparable period due to lower Australia sales.
- Corporate income taxes in Q4 2020 and for the year ended December 31, 2020 versus the comparable periods decreased due to tax recoveries resulting from the significant decreases in commodity prices during the year.

Interest expense

- Interest expense remained relatively consistent between Q4 2020 and Q4 2019. For the year ended December 31, 2020, interest expense decreased by 7.7% versus the prior year comparable period due to declining market interest rates as a function of the impact of COVID-19.

Realized gain or loss on derivatives

- Realized gains on derivatives relate to receipts for European natural gas and crude oil hedges. For the year ended December 31, 2020, realized gains also included the receipt of \$16.8 million (US \$12.7 million) due to the reset the Euro principal amount of the CAD-to-EUR cross currency interest rate swap in Q1 2020, and the receipt of \$25.5 million (US \$18.2 million) as a result of a number of transactions that resulted in the termination of the USD-to-CAD and CAD-to-EUR cross currency interest swaps in Q2 2020.
- A listing of derivative positions as at December 31, 2020 is included in "Supplemental Table 2" of this MD&A.

Realized other income

- Realized other income for the year ended December 31, 2020 primarily relates to amounts in Q4 2020 for funding under the Saskatchewan Accelerated Site Closure program to complete abandonment and reclamation on inactive oil and gas wells and facilities.

Net earnings

The following table shows a reconciliation from fund flows from operations to net (loss) earnings:

(\$M)	Q4 2020	Q4 2019	2020	2019
Fund flows from operations	135,212	215,592	502,065	908,055
Equity based compensation	(11,012)	(11,233)	(42,906)	(64,233)
Unrealized loss on derivative instruments	(66,863)	(30,362)	(100,955)	(57,427)
Unrealized foreign exchange gain (loss)	50,519	42,848	49,012	57,225
Unrealized other expense	(202)	(204)	(833)	(825)
Accretion	(9,134)	(7,833)	(35,318)	(32,667)
Depletion and depreciation	(148,219)	(139,940)	(580,461)	(675,177)
Deferred tax	(8,008)	(21,335)	374,313	(56,096)
Impairment	—	(46,056)	(1,682,344)	(46,056)
Net (loss) earnings	(57,707)	1,477	(1,517,427)	32,799

Fluctuations in net earnings from period-to-period are caused by changes in both cash and non-cash based income and charges. Cash based items are reflected in fund flows from operations. Non-cash items include: equity based compensation expense, unrealized gains and losses on derivative instruments, unrealized foreign exchange gains and losses, accretion, depletion and depreciation expense, and deferred taxes. In addition, non-cash items may also include gains resulting from business combinations or charges resulting from impairment or impairment reversals.

Equity based compensation

Equity based compensation expense relates primarily to non-cash compensation expense attributable to long-term incentives granted to directors, officers, and employees under security-based arrangements. Equity based compensation expense remained consistent between the three months ended December 31, 2020 and three months ended December 31, 2019. Equity based compensation expense for the year ended December 31, 2020 decreased versus the prior year comparable period due to the lower value of VIP awards outstanding in the current period.

Unrealized gain or loss on derivative instruments

Unrealized gain or loss on derivative instruments arise as a result of changes in forecasts for future prices and rates. As Vermilion uses derivative instruments to manage the commodity price exposure of our future crude oil and natural gas production, we will normally recognize unrealized gains on derivative instruments when future commodity price forecasts decline and vice-versa. As derivative instruments are settled, the unrealized gain or loss previously recognized is reversed, and the settlement results in a realized gain or loss on derivative instruments.

USD-to-CAD cross currency interest rate swaps may be entered into to hedge the foreign exchange movements on USD borrowings on our revolving credit facility. As such, unrealized gains and losses on our cross currency interest swaps are offset by unrealized losses and gains on foreign exchange relating to the underlying USD borrowings from our revolving credit facility.

In Q3 2019, we entered into two equity swaps to hedge the exposure of our long-term incentive plans. The swaps are expected to settle in September 2021 and October 2021. Included in current liabilities and net debt as at December 31, 2020, is a mark-to-market liability of \$59.6 million relating to the positions settling in September 2021 and October 2021.

For the three months ended December 31, 2020, we recognized a net unrealized loss on derivative instruments of \$66.9 million. This consists of a \$47.0 million unrealized loss on our European natural gas commodity derivative instruments and a \$40.2 million unrealized loss on our USD-to-CAD foreign exchange swaps. This was partially offset by an unrealized gain of \$9.6 million from our equity swaps and an unrealized gain of \$8.6 million on our North American natural gas commodity derivative instruments.

For the year ended December 31, 2020, we recognized a net unrealized loss on derivative instruments of \$101.0 million. This consists of unrealized losses of \$59.1 million on our equity swaps and \$51.6 million from our European natural gas commodity derivative instruments. These are partially offset by unrealized gains of \$9.4 million on our crude oil commodity derivative instruments.

Unrealized foreign exchange gains or losses

As a result of Vermilion's international operations, Vermilion has monetary assets and liabilities denominated in currencies other than the Canadian dollar. These monetary assets and liabilities include cash, receivables, payables, long-term debt, derivative instruments and intercompany loans. Unrealized foreign exchange gains and losses result from translating these monetary assets and liabilities from their underlying currency to the Canadian dollar.

In 2020, unrealized foreign exchange gains and losses primarily resulted from:

- The translation of Euro denominated intercompany loans from Vermilion Energy Inc. to our international subsidiaries. An appreciation in the Euro against the Canadian dollar will result in an unrealized foreign exchange gain (and vice-versa). Under IFRS, the offsetting foreign exchange loss or gain is recorded as a currency translation adjustment within other comprehensive income. As a result, consolidated comprehensive income reflects the offsetting of these translation adjustments while net earnings reflects only the parent company's side of the translation.
- The translation of USD borrowings on our revolving credit facility. The unrealized foreign exchange gains or losses on these borrowings are offset by unrealized derivative gains or losses on associated USD-to-CAD cross currency interest rate swaps (discussed further below).
- The translation of our USD denominated senior unsecured notes prior to June 12, 2019 and from May 5, 2020 onward. During the period between June 12, 2019 and May 5, 2020 the USD senior notes were hedged by a USD-to-CAD cross currency interest rate swap. Subsequent to the termination of these instrument, amounts recognized in the hedge accounting reserve will be recognized into earnings through unrealized foreign exchange loss over the period of the hedged cash flows.

For the three months ended December 31, 2020, we recognized a net unrealized foreign exchange gain of \$50.5 million. The impact of the US dollar weakening 5.0% against the Canadian dollar resulted in an unrealized gain of \$42.0 million and \$19.7 million on our USD borrowings from our revolving credit facility and our senior unsecured notes, respectively. These were partially offset primarily due to the strengthening of the Euro against the Canadian dollar resulting in net unrealized losses of \$7.6 million on intercompany loans.

For the year ended December 31, 2020, we recognized a net unrealized foreign exchange gain of \$49.0 million primarily due to unrealized gains on our USD-to-CAD and CAD-to-EUR cross currency interest swaps of \$36.4 million, and impacts of the US dollar weakening 2.0% against the Canadian dollar resulting in unrealized gains on our USD borrowings from our revolving credit facility and our senior unsecured notes of \$8.5 million and 4.0 million, respectively.

As at December 31, 2020, a \$0.01 appreciation of the Euro against the Canadian dollar would result in a \$0.9 million increase to net earnings as a result of an unrealized gain on foreign exchange. In contrast, a \$0.01 appreciation of the US dollar against the Canadian dollar would result in a \$2.7 million decrease to net earnings as a result of an unrealized loss on foreign exchange.

Accretion

Accretion expense is recognized to update the present value of the asset retirement obligation balance. For the year ended December 31, 2020 accretion expense increased versus all comparable period primarily due to a weakening Canadian dollar versus the Euro.

Depletion and depreciation

Depletion and depreciation expense is recognized to allocate the cost of capital assets over the useful life of the respective assets. Depletion and depreciation expense per unit of production is determined for each depletion unit (which are groups of assets within a specific production area that have similar economic lives) by dividing the sum of the net book value of capital assets and future development costs by total proved plus probable reserves.

Fluctuations in depletion and depreciation expense are primarily the result of changes in produced crude oil and natural gas volumes and changes in depletion and depreciation per unit. Fluctuations in depletion and depreciation per unit are the result of changes in reserves, depletable base (net book value of capital assets and future development costs), and relative production mix.

Depletion and depreciation on a per boe basis for Q4 2020 of \$18.08 increased from \$15.84 due to the impact of reflecting an increase in proved and probable reserves in Q4 2019. For the year ended December 31, 2020, depletion and depreciation decreased on a per boe basis to \$16.54 (December 31, 2019 -\$18.43) primarily due to impairment charges taken in 2020.

Deferred tax

Deferred tax assets arise when the tax basis of an asset exceeds its accounting basis (known as a deductible temporary difference). Conversely, deferred tax liabilities arise when the tax basis of an asset is less than its accounting basis (known as a taxable temporary difference). Deferred tax assets are recognized only to the extent that it is probable that there are future taxable profits against which the deductible temporary difference can be utilized. Deferred tax assets and liabilities are measured at the enacted or substantively enacted tax rate that is expected to apply when the asset is realized, or the liability is settled.

As such, fluctuations in deferred tax expenses and recoveries primarily arise as a result of: changes in the accounting basis of an asset or liability without a corresponding tax basis change (e.g. when derivative assets and liabilities are marked-to-market or when accounting depletion differs from tax depletion), changes in available tax losses (e.g. if they are utilized to offset taxable income), changes in estimated future taxable profits resulting in a derecognition or recognition of deferred tax assets, and changes in enacted or substantively enacted tax rates.

For the three months and year ended December 31, 2020, a deferred tax recovery was recognized of \$8.0 million and \$374.3 million, respectively, as a result of the impairment charges recorded in those periods.

Impairment

Impairment losses are recognized when indicators of impairment arise and the carrying amount of a cash generating unit ("CGU") exceeds its recoverable amount, determined as the higher of fair value less costs of disposal or value-in-use.

In the fourth quarter of 2020, indicators of impairment were present in our France CGUs due to a decrease in estimated reserves as a result of economic revisions. As a result of the indicators of impairment, the Company performed impairment tests on its four France CGUs and the recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 9.5%. Based on the results of the impairment tests completed, recoverable amounts were determined to be greater than the carrying values of the CGUs tested and no impairment charges were recorded.

In the third quarter of 2020, indicators of impairment were present due to a decline in the Company's market capitalization. As a result of the indicators of impairment, the Company performed impairment tests across all CGUs. The recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 11.5%. Based on the results of the impairment tests completed, the Company recognized non-cash impairment charges of \$35.4 million (net of \$12.4 million income tax recovery) in the Neocomian CGU due to increased estimated transportation expenses as a result of an announcement during the quarter that the third-party Grandpuits refinery plans on converting into a zero-crude platform in 2021. As a result of this change, the Company's estimates that incremental transportation expenses will be incurred to transport the crude oil production in the Neocomian, Chaunoy, and Champotran CGUs to alternative refineries in France.

In the second quarter of 2020, indicators of impairment were present due to a decline in the Company's market capitalization. As a result of the indicators of impairment, the Company performed impairment tests across all CGUs. The recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 11.5%. Based on the results of the impairment tests completed, the Company recognized non-cash impairment charges of \$53.1 million (net of \$16.6 million income tax recovery).

In the first quarter of 2020, indicators of impairment were present due to global commodity price forecasts deteriorating from decreases in demand and an increase of supply around the world. As a result of the indicators of impairment, the Company performed impairment tests across all CGUs. The recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 11.5%. Based on the results of the impairment tests completed, the Company recognized non-cash impairment charges of \$1.2 billion (net of \$0.4 billion income tax recovery).

Taxes

Current income tax rates

Vermilion typically pays corporate income taxes in France, Netherlands, and Australia. In addition, Vermilion pays PRRT in Australia which is a profit based tax applied at a rate of 40% on sales less operating expenses, capital expenditures, and other eligible expenditures. PRRT is deductible in the calculation of taxable income in Australia.

For 2020 and 2019, taxable income was subject to corporate income tax at the following statutory rates:

Jurisdiction	2020	2019
Canada	25.3 %	26.7 %
United States	21.0 %	21.0 %
France	28.9 %	32.0 %
Netherlands ⁽¹⁾	50.0 %	50.0 %
Germany	31.6 %	31.8 %
Ireland	25.0 %	25.0 %
Australia	30.0 %	30.0 %

⁽¹⁾ In the Netherlands, an additional 10% uplift deduction is allowed against taxable income that is applied to operating expenses, eligible general and administration expenses, and tax deductions for depletion and abandonment retirement obligations.

Tax legislation changes

On July 1, 2020, the Alberta government reduced the provincial corporate tax rate from 10% to 8%, accelerating the previously enacted schedule of rate reductions.

On December 28, 2019, the French Parliament approved the Finance Bill for 2020. The Finance Bill for 2020 provides for a progressive decrease of the French corporate income tax rate for companies with sales below €250 million from 32.0% to 25.8% by 2022, with a reduction in 2021 to 27.4%.

Tax pools

As at December 31, 2020, we had the following tax pools:

(\$M)	Assets	Tax Losses	Other	Total
Canada	1,962,908 ⁽¹⁾	1,305,737 ⁽⁴⁾	21,333	3,289,978
United States	207,751 ⁽²⁾	167,157 ⁽⁷⁾	25,522	400,430
France	383,841 ⁽²⁾	62,028 ⁽⁶⁾	11,422	457,291
Netherlands	46,484 ⁽³⁾	20,351 ⁽⁴⁾	1,387	68,222
Germany	160,033 ⁽³⁾	148,563 ⁽⁵⁾	11,419	320,015
Ireland	—	1,173,198 ⁽⁴⁾	7,377	1,180,575
Australia	253,918 ⁽¹⁾	—	—	253,918
Total	3,014,935	2,877,034	78,460	5,970,429

⁽¹⁾ Deduction calculated using various declining balance rates.

⁽²⁾ Deduction calculated using a combination of straight-line over the assets life and unit of production method.

⁽³⁾ Deduction calculated using a unit of production method.

⁽⁴⁾ Tax losses can be carried forward and applied at 100% against taxable income.

⁽⁵⁾ Tax losses carried forward are available to offset the first €1 million of taxable income and 60% of taxable profits in excess each taxation year.

⁽⁶⁾ Tax losses carried forward are available to offset the first €1 million of taxable income and 50% of taxable profits in excess each taxation year.

⁽⁷⁾ Tax losses of \$47 million created prior to January 1, 2018 are carried forward and applied at 100% against taxable income, tax losses of \$120 million created after January 1, 2018 are carried forward and applied to 80% of taxable income in each taxation year.

Financial Position Review

Balance sheet strategy

We regularly review whether our forecast of fund flows from operations is sufficient to finance planned capital expenditures, abandonment and reclamation expenditures, and dividends. To the extent that fund flows from operations forecasts are not expected to be sufficient to fulfill such expenditures, we will evaluate our ability to finance any shortfall by reducing some or all categories of expenditures, reducing or eliminating dividends, with issuances of equity, or with debt (including borrowing using the unutilized capacity of our existing revolving credit facility). We have a long-term goal of maintaining a ratio of net debt to fund flows from operations of less than 1.5.

Due to the significant decline in commodity prices following the outbreak of COVID-19 and the ensuing OPEC+ price war, our ratio of net debt to fund flows from operations continues to remain beyond our target of less than 1.5 and was 4.19 at December 31, 2020. We responded to this rapid change in market conditions by significantly reducing our cost structure, which included suspending our monthly dividend payment, reducing our capital expenditures, and identified expense savings that were executed in 2020. Going forward, we will continue to monitor for changes in forecasted fund flows from operations and, as appropriate, will adjust our exploration and development capital plans (and associated growth targets) to minimize any further increase to debt. As commodity prices improve, we intend to strengthen our balance sheet through the reduction of debt and will continue to target a ratio of net debt to fund flows from operations of less than 1.5.

Net debt

Net debt is reconciled to long-term debt, as follows:

(\$M)	As at	
	Dec 31, 2020	Dec 31, 2019
Long-term debt	1,933,848	1,924,665
Current liabilities	433,128	416,210
Current assets	(260,993)	(347,681)
Net debt	2,105,983	1,993,194
Ratio of net debt to four quarter trailing fund flows from operations	4.19	2.20

As at December 31, 2020, net debt increased to \$2.1 billion (December 31, 2019 - \$2.0 billion) primarily due to the impact of lower current assets and also due to increased borrowings on long-term debt. The Company will draw on unutilized capacity of the revolving credit facility to working capital deficiencies. The ratio of net debt to four quarter trailing fund flows from operations increased to 4.19 (December 31, 2019 - 2.20) due to lower four quarter trailing fund flows from operations as a result of lower commodity prices, combined with an increase in net debt.

Long-term debt

The balances recognized on our balance sheet are as follows:

(\$M)	As at	
	Dec 31, 2020	Dec 31, 2019
Revolving credit facility	1,555,215	1,539,225
Senior unsecured notes	378,633	385,440
Long-term debt	1,933,848	1,924,665

Revolving Credit Facility

In Q1 2020, we negotiated an extension to our \$2.1 billion revolving credit facility to extend the maturity to May 31, 2024.

As at December 31, 2020, Vermilion had in place a bank revolving credit facility maturing May 31, 2024 with terms and outstanding positions as follows:

(\$M)	As at	
	Dec 31, 2020	Dec 31, 2019
Total facility amount	2,100,000	2,100,000
Amount drawn	(1,555,215)	(1,539,225)
Letters of credit outstanding	(23,210)	(10,230)
Unutilized capacity	521,575	550,545

As at December 31, 2020, the revolving credit facility was subject to the following financial covenants:

Financial covenant	Limit	As at	
		Dec 31, 2020	Dec 31, 2019
Consolidated total debt to consolidated EBITDA	Less than 4.0	3.48	1.94
Consolidated total senior debt to consolidated EBITDA	Less than 3.5	2.82	1.56
Consolidated EBITDA to consolidated interest expense	Greater than 2.5	8.12	13.46

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

- Consolidated total debt: Includes all amounts classified as "Long-term debt", "Current portion of long-term debt", and "Lease obligations" (including the current portion included within "Accounts payable and accrued liabilities" but excluding operating leases as defined under IAS 17) on our balance sheet.
- Consolidated total senior debt: Defined as consolidated total debt excluding unsecured and subordinated debt.
- Consolidated EBITDA: Defined as consolidated net earnings before interest, income taxes, depreciation, accretion and certain other non-cash items, adjusted for the impact of the acquisition of a material subsidiary.
- Total interest expense: Includes all amounts classified as "Interest expense", but excludes interest on operating leases as defined under IAS 17.

In addition, our revolving credit facility has provisions relating to our liability management ratings in Alberta and Saskatchewan whereby if our security adjusted liability management ratings fall below specified limits in a province, a portion of the asset retirement obligations are included in the definitions of consolidated total debt and consolidated total senior debt. An event of default occurs if our security adjusted liability management ratings breach additional lower limits for a period greater than 90 days. As of December 31, 2020, Vermilion's liability management ratings were higher than the specified levels, and as such, no amounts relating to asset retirement obligations were included in the calculation of consolidated total debt and consolidated total senior debt.

Due to the OPEC+ price war in the first quarter of 2020 and the ongoing COVID-19 pandemic, worldwide crude oil and natural gas prices have significantly declined. The impacts of these decreases has had an adverse effect on the Company's financial position for the year ended December 31, 2020 and is expected to result in continued pressure on our forecasted cash flows and earnings. The Company is currently in compliance with all financial covenants related to its revolving credit facility, but is at risk of breaching one or more of the financial covenants if worldwide oil and natural gas prices decline in the future. If we believe we are at risk of being in non-compliance with our financial covenants, we will approach our lending syndicate and request temporary covenant relief or other measures to ensure the credit facility remains available. There is no certainty that discussions surrounding covenant relief or other measures would be successful.

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, 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 in right of payment 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 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, if redeemed during the twelve-month period beginning on March 15 of each of the years indicated below:

Year	Redemption price
2021	102.813 %
2022	101.406 %
2023 and thereafter	100.000 %

Cross currency interest rate swaps

On June 12, 2019, Vermilion entered into a series of cross currency interest rate swaps with a syndicate of banks. Vermilion applied hedge accounting to these derivative instruments. The cross currency interest rate swaps had an original maturity of March 15, 2025.

The USD-to-CAD cross currency interest rate swaps were designated as the hedging instrument in a cash flow hedge while the CAD-to-EUR cross currency interest rate swaps were designated as the hedging instrument in a net investment hedge.

During the quarter ended June 30, 2020, Vermilion executed a number of transactions that resulted in a termination of the cross currency interest rate swaps in exchange for \$42.3 million (\$16.8 million received in the three months ended March 30, 2020 and \$25.5 million received in the three months ended June 30, 2020). As a result of the termination, Vermilion has discontinued hedge accounting and amounts previously recognized for the hedge reserve within accumulated other comprehensive income will be reclassified into net income over the remaining life of the senior unsecured notes.

Shareholders' capital

Dividends declared for the year ended December 31, 2020 were \$90.1 million.

The following table outlines our dividend payment history:

Date	Monthly dividend per unit or share
January 2003 to December 2007	\$0.170
January 2008 to December 2012	\$0.190
January 2013 to December 2013	\$0.200
January 2014 to March 2018	\$0.215
April 2018 to February 2020	\$0.230
March 2020	\$0.115

In the current economic and commodity outlook following the outbreak of COVID-19, there was uncertainty regarding our ability to achieve a 100% payout ratio at a reasonable level of capital expenditures. Therefore, in the first half of 2020, we reduced our 2020 capital budget and suspended our monthly dividend to strengthen the financial position of the Company during this period of weak commodity prices. We will evaluate our ability to finance any shortfall by reducing some or all categories of expenditures, with issuances of equity, or with debt (including borrowing using the unutilized capacity of our existing revolving credit facility). Our ability to restore a dividend will be dependent upon stronger commodity prices combined with a balance sheet that reflects the Company's ability to sustain such dividend over the long-term.

The following table reconciles the change in shareholders' capital:

Shareholders' Capital	Number of Shares ('000s)	Amount (\$M)
Balance at December 31, 2019	156,290	4,119,031
Shares issued for the Dividend Reinvestment Plan	619	8,277
Vesting of equity based awards	1,103	49,188
Equity based compensation	415	3,203
Share-settled dividends on vested equity based awards	297	1,461
Balance at December 31, 2020	158,724	4,181,160

As at December 31, 2020, there were approximately 6.2 million equity based compensation awards outstanding. As at March 5, 2021, there were approximately 158.9 million common shares issued and outstanding.

Vermilion had a normal course issuer bid approved by the Toronto Stock Exchange that allowed us to purchase up to 7,750,000 common shares (representing approximately 5% of shares outstanding common shares) that commenced on August 9, 2019 and which expired on August 8, 2020. Vermilion did not purchase any shares during the period.

At Vermilion's Annual General and Special Meeting held on April 28, 2020 shareholders of the Company approved a \$3.7 billion reduction in the stated capital of Vermilion's common shares, with the \$3.7 billion reduction deducted from the stated capital account maintained for the common shares of Vermilion and an offsetting increase to the contributed surplus account of Vermilion. The transaction did not result in an adjustment to the financial statements under IFRS.

Contractual Obligations and Commitments

As at December 31, 2020, we had the following contractual obligations and commitments:

(\$M)	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years	Total
Long-term debt ⁽¹⁾	62,328	124,656	1,986,421	—	2,173,405
Lease obligations	43,131	41,002	36,437	32,408	152,978
Processing and transportation agreements	32,122	38,643	19,839	22,519	113,123
Purchase obligations	25,390	12,265	885	—	38,540
Drilling and service agreements	15,881	57,827	38,061	—	111,769
Total contractual obligations and commitments	178,852	274,393	2,081,643	54,927	2,589,815

⁽¹⁾ Interest on revolving credit facility calculated assuming an annual interest rate of 2.63%.

⁽²⁾ Commitments denominated in foreign currencies have been translated using the related spot rates on December 31, 2020.

Asset Retirement Obligations

As at December 31, 2020, asset retirement obligations were \$467.7 million compared to \$618.2 million as at December 31, 2019. The decrease in asset retirement obligations is primarily attributable to an increase in the credit-adjusted risk-free rate from December 31, 2019 to December 31, 2020. This decrease was partially offset by changes in the estimated costs, accretion expense and the Euro strengthening against the Canadian dollar.

The present value of the obligation is calculated using a credit-adjusted risk-free rate, calculated using a credit spread added to risk-free rates based on long-term, risk-free government bonds. Vermilion's credit spread is determined as the yield to maturity on its senior unsecured notes as at the reporting period.

The risk-free rates and credit spread used as inputs to discount the obligations were as follows:

	Dec 31, 2020	Dec 31, 2019	Change
Country specific risk-free rate			
Canada	1.2 %	1.7 %	(0.5)%
United States	1.6 %	2.4 %	(0.8)%
France	0.3 %	0.9 %	(0.6)%
Netherlands	(0.6)%	(0.1)%	(0.5)%
Germany	(0.2)%	0.3 %	(0.5)%
Ireland	(0.1)%	0.6 %	(0.7)%
Australia	1.3 %	1.6 %	(0.3)%
Credit spread added to above noted risk-free rates	10.0 %	5.3 %	4.7 %

Risks and Uncertainties

Crude oil and natural gas exploration, production, acquisition and marketing operations involve a number of risks and uncertainties that have affected the financial statements and are reasonably likely to affect them in the future. These risks and uncertainties are discussed further below.

Commodity prices

Crude oil and natural gas prices have fluctuated significantly in recent years due to supply and demand factors. Changes in crude oil and natural gas prices affect the level of revenue we generate, the amount of proceeds we receive and payments we make on our commodity derivative instruments, and the level of taxes that we pay. In addition, lower crude oil and natural gas prices would reduce the recoverable amount of our capital assets and could result in impairments or impairment reversals.

Exchange rates

Exchange rate changes impact the Canadian dollar equivalent revenue and costs that we recognize. The majority of our crude oil and condensate revenue stream is priced in US dollars and as such an increase in the strength of the Canadian dollar relative to the US dollar would result in the receipt of fewer Canadian dollars for our revenue. We also incur expenses and capital costs in US dollars, Euros and Australian dollars and thus a decrease in strength of the Canadian dollar relative to those currencies may result in the payment of more Canadian dollars for our expenditures.

In addition, exchange rate changes impact the Canadian equivalent carrying balances for our assets and liabilities. For foreign currency denominated monetary assets (such as cash and cash equivalents, long-term debt, and intercompany loans), the impact of changes in exchange rates is recorded in net earnings as a foreign exchange gain or loss.

Production and sales volumes

Our production and sales volumes affect the level of revenue we generate and correspondingly the royalties and taxes that we pay. In addition, significant declines in production or sales volumes due to unforeseen circumstances may also result in an indicator of impairment and potential impairment charges.

Interest rates

Changes in interest rates impact the amount of interest expense we pay on our variable rate debt and also our ability to obtain fixed rate financing in the future.

Tax and royalty rates

Changes in tax and royalty rates in the jurisdictions that we operate in would impact the amount of current taxes and royalties that we pay. In addition, changes to substantively enacted tax rates would impact the carrying balance of deferred tax assets and liabilities, potentially resulting in a deferred tax recovery or incremental deferred tax expense.

In addition to the above, we are exposed to risk factors that impact our company and business. For further information on these risk factors, please refer to our Annual Information Form, available on SEDAR at www.sedar.com or on our website at www.vermilionenergy.com.

COVID-19

The emergence of COVID-19 has resulted in emergency actions by governments worldwide, which has had an effect in all of our operating jurisdictions. The actions taken by these governments have typically included, but is not limited to travel bans, mandatory and self-imposed quarantines and isolations, social distancing, and the closing of non-essential businesses which has had significant negative effects on economies, including a substantial decline in crude oil and natural gas demand.

The full extent of the risks surrounding the severity and timing of the COVID-19 pandemic is continually evolving; therefore, there is significant risk and uncertainty which may have a material and adverse effect on our operations. The following risks disclosed in our Annual Information Form for the year ended December 31, 2020 may be exacerbated as a result of the COVID-19 pandemic: market risks related to the volatility of oil and gas prices, volatility of foreign exchange rates, volatility of the market price of common shares, and hedging arrangements; operational risks related to increasing operating costs or declines in production levels, operator performance and payment delays, and government regulations; financing risks related to the ability to obtain additional financing, ability to service debt, and variations in interest rates and foreign exchanges rates; and other risks related to cyber-security as our workforce moves to remote connections, accounting adjustments, effectiveness of internal controls, and reliance on key personnel, management, and labour.

Due to the COVID-19 pandemic, Vermilion has implemented social distancing measures which require deemed non-critical employees to work remotely and has encouraged critical staff to do the same. These measures may, but are not expected to have an effect on the design and performance of internal controls throughout the Company and will be continually monitored to mitigate any risks associated with changes in its control environment.

As part of our cyber security program, policies governing access, networks, and systems are reviewed at minimum on an annual basis. With increased work from home requirements due to COVID-19, a further risk assessment was performed against these policies that considered the changing cyber threat landscape. The result of this assessment was a series of recommendations that were implemented in the first half of 2020 to further strengthen the organization's cyber resiliency while balancing the need to enable our workforce to continue to be efficient when working from home.

Other than Vermilion's response to COVID-19, there has been no change in Vermilion's internal control over financial reporting during the period covered by this MD&A that materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Financial Risk Management

To mitigate the risks affecting our business whenever possible, we seek to hire personnel with experience in specific areas. In addition, we provide continued training and development to staff to further develop their skills. When appropriate, we use third party consultants with relevant experience to augment our internal capabilities with respect to certain risks.

We consider our commodity price risk management program as a form of insurance that protects our cash flow and rate of return. The primary objective of the risk management program is to support our dividends and our internal capital development program. The level of commodity price risk management that occurs is dependent on the amount of debt that is carried. When debt levels are higher, we will be more active in protecting our cash flow stream through our commodity price risk management strategy.

When executing our commodity price risk management programs, we use derivative financial instruments encompassing over-the-counter financial structures as well as fixed and collar structures to economically hedge a part of our physical crude oil and natural gas production. We have strict controls and guidelines in relation to these activities and contract principally with counterparties that have investment grade credit ratings.

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires us to make estimates. Critical accounting estimates are those accounting estimates that require us to make assumptions about matters that are highly uncertain at the time the estimate is made and a different estimate could have been made in the current period or the estimate could change period-to-period.

The carrying amount of asset retirement obligations

The carrying amount of asset retirement obligations (\$467.7 million as at December 31, 2020) is the present value of estimated future costs, discounted from the estimated abandonment date using a credit-adjusted risk-free rate. Estimated future costs are based on our assessment of regulatory requirements and the present condition of our assets. The estimated abandonment date is based on the reserve life of the associated assets. The credit-adjusted risk-free rate is based on prevailing interest rates for the appropriate term, risk-free government bonds adjusted for our estimated credit spread (determined by reference to the trading prices for debt issued by similarly rated independent oil and gas producers, including our own senior unsecured notes). Changes in these estimates would result in a change in the carrying amount of asset retirement obligations and capital assets and, to a significantly lesser degree, future accretion and depletion expense.

The estimated abandonment date may change from period to period as the estimated abandonment date changes in response to new information, such as changes in reserve life assumptions or regulations. A one year increase or decrease in the estimated abandonment date would decrease or increase asset retirement obligations (with an offsetting increase to capital assets) by approximately \$37.7 million.

The estimated credit-adjusted risk-free rate may change from period to period in response to market conditions in Canada and the international jurisdictions that we operate in. A 0.5% increase or decrease in the credit-adjusted risk-free rate would decrease or increase asset retirement obligations by approximately \$26.8 million.

The recognition of deferred tax assets

The extent to which deferred tax assets are recognized are based on estimates of future profitability. These estimates are based on estimated future commodity prices and estimates of reserves. As at December 31, 2020, the deferred tax asset balance of \$484.5 million primarily related to Canada as a deferred tax asset has not been recognized on our non-expiring tax loss pools in Ireland.

In Canada, we have \$36.0 million of non-expiring oil and gas tax pools where \$9.0 million of deferred tax assets has not been recognized as there is uncertainty on our ability to fully use these pools based on estimated future taxable profits. Estimated future taxable profits are calculated using proved and probable reserves and forecast pricing. A 5% increase or decrease in sales would increase or decrease the amount of deferred tax assets recognized by approximately \$5.0 million.

In Ireland, we have \$1.2 billion of non-expiring tax loss pools where \$248.2 million of deferred tax assets has not been recognized as there is uncertainty on our ability to fully use these losses based on estimated future taxable profits. Estimated future taxable profits are calculated using proved and probable reserves and forecast pricing. A 5% increase or decrease in sales would not increase or decrease the amount of deferred tax assets recognized.

Depletion and depreciation

Capital assets are grouped into depletion units, which are groups of assets within a specific production area that have similar economic lives. Depletion units represent the lowest level of disaggregation for which costs are accumulated for the purposes of calculating depletion and depreciation.

The net carrying value of each depletion unit is depleted using the unit of production method by reference to the ratio of production in the period to the total proved and probable reserves, taking into account the future development costs necessary to bring the applicable reserves into production. Key judgments that are made to reserve estimates such as revisions in reserves, changes in forecast commodity prices, foreign exchange rates, capital or operating costs would impact the amount of depletion and depreciation recorded in a period.

The estimated recoverable amount of cash generating units

Each reporting period, we assess our CGUs for indicators of impairment or impairment reversal. If an indicator of impairment or impairment reversal is identified, we estimate the recoverable amount of the CGU. Judgment is required when determining whether indicators of impairment or impairment reversal exist, as well as judgments made when determining the recoverable amount of a CGU. Changes in any of the key judgments, such as a revision in reserves, changes in forecast commodity prices, foreign exchange rates, capital or operating costs would impact the estimated recoverable amount.

In the fourth quarter of 2020, indicators of impairment were present in our France CGUs due to a decrease in estimated reserves as a result of economic revisions. As a result of the indicators of impairment, the Company performed impairment tests on its four France CGUs and the recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 9.5%. Based on the results of the impairment tests completed, recoverable amounts were determined to be greater than the carrying values of the CGUs tested and no impairment charges were recorded. A 1% increase in the assumed after-tax discount rate would reduce the estimated recoverable amount of assets tested and result in an impairment of \$5.6 million while a 5% decrease in revenues (due to a decrease in commodity price forecasts or reserve estimates) would reduce the estimated recoverable amount of assets tested and result in an impairment of \$24.8 million.

In the third quarter of 2020, indicators of impairment were present due to a decline in the Company's market capitalization. As a result of the indicators of impairment, the Company performed impairment tests across all CGUs. The recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 11.5%. Based on the results of the impairment tests completed, the Company recognized non-cash impairment charges of \$35.4 million (net of \$12.4 million income tax recovery) in the Neocomian CGU due to increased estimated transportation expenses as a result of an announcement during the quarter that the third-party Grandpuits refinery plans on converting into a zero-crude platform in 2021. As a result of this change, the Company's estimates that incremental transportation expenses will be incurred to transport the crude oil production in the Neocomian, Chaunoy, and Champotran CGUs to alternative refineries in France. A 1% increase in the assumed after-tax discount rate would reduce the estimated recoverable amount of impaired assets by \$5.2 million (resulting in a \$53.0 million impairment) while a 5% decrease in revenues (due to a decrease in commodity price forecasts or reserve estimates) would reduce the estimated recoverable amount of impaired assets by \$13.2 million (resulting in a \$61.0 million impairment).

In the second quarter of 2020, indicators of impairment were present due to a decline in the Company's market capitalization. As a result of the indicators of impairment, the Company performed impairment tests across all CGUs. The recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 11.5%. Based on the results of the impairment tests completed, the Company recognized non-cash impairment charges of \$53.1 million (net of \$16.6 million income tax recovery). A 1% increase in the assumed after-tax discount rate would reduce the estimated recoverable amount of impaired assets by \$14.0 million (resulting in a \$83.7 million impairment) while a 5% decrease in revenues (due to a decrease in commodity price forecasts or reserve estimates) would reduce the estimated recoverable amount of impaired assets by \$37.5 million (resulting in a \$107.2 million impairment).

In the first quarter of 2020, indicators of impairment were present due to global commodity price forecasts deteriorating from decreases in demand and an increase of supply around the world. As a result of the indicators of impairment, the Company performed impairment tests across all CGUs. The recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 11.5%. Based on the results of the impairment tests completed, the Company recognized non-cash impairment charges of \$1.2 billion (net of \$0.4 billion income tax recovery). A 1% increase in the assumed after-tax discount rate would reduce the estimated recoverable amount of impaired assets by \$137.7 million (resulting in a \$1.7 billion impairment) while a 5% decrease in revenues (due to a decrease in commodity price forecasts or reserve estimates) would reduce the estimated recoverable amount of impaired assets by \$272.3 million (resulting in a \$1.8 billion impairment).

Off Balance Sheet Arrangements

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

Recently Adopted Accounting Pronouncements

Vermilion did not adopt any new accounting pronouncements as at December 31, 2020.

Health, Safety and Environment

We are committed to ensuring our activities are conducted in a manner that will protect the health and safety of our employees, contractors, and the public. Our health, safety, and environment ("HSE") vision is "Best in Class HSE", our mission is to fully integrate health, safety, and environment into our business, where our culture is recognized as a model by industry and stakeholders, resulting in a safe and healthy workplace. Our mantra is HSE: Everywhere. Everyday. Everyone.

We maintain health, safety and environmental practices and procedures in compliance with or exceeding regulatory requirements and industry standards. All of our personnel are expected to work safely and in accordance with established regulations and procedures, and we seek to reduce impacts to land, water and air. During 2020 we:

- Maintained clear priorities around 5 key focus areas of HSE Culture, Communication and Knowledge Management, Management Systems, Health, and Environment & Operational Stewardship;
- Activated our Emergency Response and Business Continuity Plans to address COVID-19 with a primary focus on healthy and safe operations;
- Completed ongoing HSE Performance Monitoring through key performance indicator development, analysis and reporting;
- Continued comprehensive investigations of our incidents and near misses to ensure root causes were identified and corrective actions effectively implemented;
- Implemented action plans to address the findings of our latest HSE Perception Survey, which we conduct every three years. Our results all factored in the favorable range;
- Implemented a new Event and Environmental Management Information System;
- Implemented recently updated corporate standards updates related to operational risk management, contractor management, marine transportation, and environmental management;
- Continued reinforcement of the "Vermilion High 5", an individual safety awareness initiative aimed at keeping front-line workers safe;
- Further developed and validated critical procedures and initiated competency assessments as part of fit-for-purpose training and competency programs;
- Submitted our First CDP Water report. Continued submitting our CDP Climate report;
- Managed our waste products by reducing, recycling and recovering;
- Reduced long-term environmental liabilities through decommissioning, abandoning and reclaiming well leases and facilities;
- Further refined and expanded our enterprise wide corporate risk register;
- Continued the development of a robust hazard identification and risk mitigation program specific to environmentally sensitive areas;

- Continued the development of our Corporate Process Safety Management System with emphasis on Process Hazards Analysis and risk reduction measures;
- Performed auditing, management inspections and workforce observations to measure compliance and identify potential hazards and apply risk reduction measures; and
- Developed, communicated and measured against leading and lagging HSE key performance indicators.

We are a member of several organizations concerned with environment, health and safety, including numerous regional co-operatives and synergy groups. In the area of stakeholder relations, we work to build long-term relationships with environmental stakeholders and communities.

Environmental, Social and Governance (ESG)

In 2020 we continued to support recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB) in our ESG strategy and reporting, focusing not only on climate but also on sustainability in a wider context. In 2020, our Board of Directors and senior management analyzed the results of their robust scenario analysis that was based on reporting from the World Economic Forum, including a “Gradual, Business as Usual” scenario and a “Rapid, 2°C or lower, Sustainable Development” scenario. This included factors such as the influence of new technologies, technology growth, government policy, and emerging markets that will impact the speed of the energy transition, and the resulting risks and opportunities for Vermilion. Our 2020 performance in sustainability rankings such as CDP Climate, SAM, and Sustainalytics continued to be at the top of our peer group.

Sustainability

As a responsible oil and gas producer, we consistently seek to deliver long-term shareholder value by operating in an economically, environmentally and socially sustainable manner that is recognized as a model in our industry.

Vermilion understands our stakeholders’ expectations that we deliver strong financial results in a responsible and ethical way. As a result, we align our strategic priorities in the following order:

- the safety and health of our staff and those involved directly or indirectly in our operations;
- our responsibility to protect the environment. We follow the Precautionary Principle introduced in 1992 by the United Nations “Rio Declaration on Environment and Development” by using environmental risk as part of our development decision criteria, and by continually seeking improved environmental performance in our operations; and
- economic success through a focus on operational excellence across our business, which includes technical and process excellence, efficiency, expertise, stakeholder relations, and respectful and fair treatment of staff, contractors, partners and suppliers.

Reflecting these priorities, we have positioned Vermilion purposefully within the energy transition. Predictions differ about the manner and speed of the transition, but our own scenario analyses are clear that Vermilion can best contribute by focusing on producing energy responsibly: reliably, cost-effectively and safely. We also believe those stakeholders who are concerned about sustainability, including investors, governments, regulators, communities and citizens, should turn to best-in-class operators such as Vermilion. Our crude oil and natural gas assets are strategic resources that can, and should, be deployed in the service of the transition and, indeed, of the framework for the planet’s health and wellbeing represented by the United Nations Sustainable Development Goals (SDGs).

To support our strategy, we regularly communicate with our stakeholders, including through our sustainability reporting. In 2020, this included providing alignment with TCFD and SASB. For more information, please see references to sustainability throughout this document, including the Climate Risk discussion. For additional context, our Sustainability Report is available online at www.vermilionenergy.com (under the heading “Our Responsibility”).

Vermilion’s sustainability performance and reporting have earned consistently strong recognition from external stakeholders:

Accomplishments

- The Company received the top ranking for our peer group in SAM’s 2020 Corporate Sustainability Assessment (“CSA”) and was selected for The Sustainability Yearbook 2021, indicating that our sustainability performance is within the top 15% of our industry (SAM’s Upstream Oil & Gas and Integrated category).
- Vermilion was ranked top of our peer group in the Sustainalytics ESG Risk Rating.
- Vermilion maintained its MSCI ESG rating of AA in 2020.
- As of February 2021, our ISS decile ratings were 1 for both Environmental and Social QualityScores, which assess corporate disclosure and transparency practices in these areas, where 1 indicates the lowest risk.

Climate-related Disclosures: TCFD 2(a) and 2(b)

Vermilion has publicly communicated our identified climate-related risks and opportunities since our first annual CDP Climate Change response in 2014. We progressed this transparency by submitting our first CDP Water Security questionnaire in 2020. The following table summarizes climate-related issues as per TCFD Strategy recommendations 2(a) and 2(b).

For more information on our sustainability- and climate-related governance, strategy, risk management, and metrics and targets, please see our 2021 Proxy Statement and Information Circular, our online sustainability reporting, particularly the Index and Performance Metrics sections, and our 2020 CDP Responses, which include additional details for the following summaries of risks and opportunities.

Category / Issue	Description of Impacts ¹	Potential Financial Impact	Management Approach
Short-term Transition Risks (0-3 Years)			
Policy and Legal: Increased Pricing of GHG Emissions e.g. Carbon Tax	In April 2019, our Saskatchewan operations became subject to the federal Greenhouse Gas Pollution Pricing Act, with carbon tax rates set at \$20 per tonne of CO ₂ e in 2019, rising to \$50 by 2022. In Alberta, the TIER system will apply a tax rate of \$30 per tonne of CO ₂ e commencing January 2020. Since carbon pricing mechanisms are vulnerable to changes in government policy, regions with upcoming elections, coalition governments or minority governments may be subject to changes that cannot yet be identified. We note the political focus in the EU and Canada on a COVID-19 economic recovery that is both climate-focused and responsive to social justice issues such as labour practices.	Based on the probable cost scenarios identified in our Carbon Liability Assessment Tool, our Canadian carbon tax liability is not expected to exceed \$0.5MM/year in the medium term. The Ireland EU ETS liability is forecasted to be approximately \$1.1MM/year between 2021 and 2025. The Ireland Carbon Tax liability is forecasted to be an additional approximately \$0.3MM/year over this period. Commencing in 2021, our Netherlands operations will likely be subject to an indirect carbon tax applied to the price of fossil fuels. The cost implication of the tax is expected to be limited.	Vermilion continues to monitor and comply with taxation requirements, engaging external subject matter experts and in-house experts in engineering, asset integrity, optimization, health safety & environment, and sustainability that assess our operations to determine where we are able to apply the principles of Operational Excellence supporting Integrated Sustainability. As a result, the potential financial impact is significantly decreased and anticipated to decrease further in the short term. Vermilion's ongoing efforts to reduce the energy intensity of our operations also contribute to managing this risk.
Policy and Legal: Enhanced Emissions Reporting Obligations	Emissions reporting obligations are an ongoing risk and can change due to political and regulatory evolution. The impact to Vermilion would be a decreased netback on a per BOE basis, due to increased expenditures for personnel time and system development and implementation. Based on the current output of Vermilion's facilities in Canada and Europe and on the current regulated thresholds, the cost associated with meeting emission reporting obligations will likely increase in the short-term.	The financial impact is anticipated to be realized as a small increase in operational cost associated with the management and quantification of emissions to meet new reporting requirements. This is built into Vermilion's operating expenses and is currently estimated at \$0.4MM annually.	Regulations in all of our business units are monitored on an ongoing basis, and assumptions/scenario planning is used annually to assess risk. Vermilion also engages stakeholders relating to emissions reporting obligations. Management of this risk is built into Vermilion's operations and our Enterprise Risk Matrix.
Policy and Legal and Technology: Mandates on and Regulation of Existing Products and Services	Vermilion's operations are subject to regional regulatory changes that result in changes to equipment requirements such as engineering and equipment modifications to reduce carbon emissions and / or emissions of criteria air contaminants.	Operational changes to comply with methane reduction regulations is expected at approx. \$1.5MM in the short term, with those associated with eliminating routine flaring in France not expected to exceed \$0.5MM. Costs associated with the Netherlands MJ3 program are built into operating costs and no significant expenditures are anticipated in the short term.	Vermilion is allocating resources to complete these works on a planned program basis, as opposed to a reactive single replacement program, resulting in an overall reduction in costs associated with the work. Tying in vented equipment to flaring infrastructure in Canada is an example of projects planned in the near term to address this risk.
Medium-term Transition Risks (3-6 Years)			
Policy and Legal: Changes in Emissions Regulations	The risk associated with a change in emission regulations in one or more of our business units is accounted for by Vermilion's Enterprise Risk Matrix, with mitigation measures being reviewed, updated, and implemented on an annual basis. A shift in international regulations may also result in an impact to Vermilion's supply chain, resulting in a limitation of market access or direct impact to the price of our products. As Vermilion maintains a diversified asset base, we believe the risk to the marketability of our products is low.	Based on the anticipated changes in the various regulatory regimes under which Vermilion operates, the financial impact due to a regulatory change over the next 3 years is anticipated to be less than \$2.0MM. This does not include the cost associated with emission reduction projects completed on an annual basis, or previous projects that have annual emissions reductions.	The formalization of Integrated Sustainability as a strategic objective in Vermilion's long-term strategic plan allows us to better understand, identify, proactively respond, and manage the potential risk and uncertainty inherent in an evolving regulatory framework, both at a regional and corporate level. This includes the Sustainability Committee at the Board of Directors level, monthly Executive Committee meetings on Sustainability strategy and performance, and risk identification at the corporate and business unit level.
Medium-term Physical Risks (3-6 Years)			
Acute: Increased Severity of Extreme Weather Events such as Cyclones and Floods	Vermilion owns and operates an offshore platform in the Wandoo field off northwestern Australia, co-owns and operates the Corrib project off the Irish coast, and owns and operates oil fields in the coastal area of SW France. Extreme weather events have the potential to directly impact our offshore operations resulting in down time or damage to infrastructure, and can impact the downstream handling capacity of our partners, resulting in a limitation to the distribution and sale of our products.	Based on the value of the Wandoo Platform and a 1-in-10,000 year cyclonic event, the financial implications associated with damage due to a severe weather event is estimated at \$234.5MM (total impact before insurance). The third-party costs associated with potential damages from extreme weather events are not tracked by Vermilion.	Vermilion maintains insurance as a mitigative measure to reduce the financial impact associated with damage to our assets due to severe weather events. We also have a robust asset integrity program that maintains our offshore facilities to their original design specifications of CAT 5 hurricane force. We also have protocols for monitoring and preparing for cyclones, and have invested in our emergency response capabilities in the event of damage to our assets as a result of a severe weather event.

Category / Issue	Description of Impacts ¹	Potential Financial Impact	Management Approach
Long-term Transition Risks (6-50 Years)			
Market and Reputational: Changing Customer Behaviour	As consumers and governments become more socially aware of the sources of their energy, negative perceptions of organizations or production methods have the potential to impact energy sector companies through company valuations, restricted licensing and permitting, and stakeholder opposition.	The impact of decreased consumer confidence and perception is not calculable. On a per share basis, the market impact of the loss of \$1 per share would be approximately \$156.0MM. The direct cost of Vermilion's operating excellence and risk management cannot be quantified on a single risk basis.	Vermilion is positioned within the evolving energy transition, with an unwavering commitment to our priorities of health and safety, environmental protection, and economic prosperity. We believe that those commitments, and our contributions to the UN SDGs constitute qualitative advantages that set us apart from our competitors. Sustainable practices are ingrained into the way we operate, and we will continue to focus on our Integrated Sustainability strategic objective. We believe this advantage attracts investors to Vermilion and will continue to give Vermilion a competitive advantage in the future.
Long-term Physical Risks (6-50 Years)			
Chronic: Changes in Temperature Extremes, Including Rising Mean Temperatures	A decrease or increase in the temperature extremes experienced in winter/summer months (i.e. lower seasonal lows, higher seasonal highs) could result in an increase in fuel gas for a variety of equipment essential for safe production, along with additional equipment (e.g. building heaters, line heaters). This would require additional resources (infrastructure) as well as increase our carbon footprint. Temperature extremes also have the potential to increase capital costs associated with drilling, completion and workover operations due to increased timelines, decreased productivity, equipment breakdown, etc.	For example, an overall increase in seasonal lows (warmer winters) would have a direct impact on Vermilion's more northern onshore operations and could result in a decrease in ability to access lands and increase construction capital requirements. The financial implications on an annual basis are difficult to quantify; however, based on Vermilion's experience, the most significant financial implications would result from shutdowns in drilling or completions locations. The estimated cost of this would be \$0.5MM per day of delay.	As extreme weather cannot be controlled, Vermilion uses our various Management Systems and processes to protect the health and safety of our workers, contractors and the public, and to protect the environment from adverse effect. For example, we have reduced the potential impact related to access in remote assets by using multi-well pads wherever possible. This reduces the aerial impact of these activities on the environment, habitat fragmentation and carbon emissions associated with lease construction and equipment mobilization/demobilization. This would significantly decrease capital considerations in the event that limited frost days occurred.
Chronic: Changes In Precipitation Patterns and Extreme Variability in Weather Patterns	Vermilion holds assets inland, in coastal regions, and offshore. A change in precipitation in any of these locations could have a negative impact on operations due to drought or flooding. Flooding could result in limited access to locations / facilities, and poses a risk to our corporate headquarters. Alternatively, drought conditions could impact the availability of surface and / or groundwater, which Vermilion, in part, relies on for drilling and completion activities. This could negatively impact forecasted growth by increasing the timelines and capital costs to bring new infrastructure onto production.	The financial implications of a single time event (i.e. wild fire) has been assessed on a case-specific basis, and the financial implications of this event is believed to be substantive (impact > \$10.0MM). Vermilion maintains insurance to mitigate the potential impact of precipitation-related extreme events (i.e. Wildfire, Flooding).	As these incidents are out of Vermilion's control, we take all measures possible to ensure effective emergency response to extreme weather events, to ensure the protection of the health and safety of our workers, contractors and the public, the protection of the environment and limiting the financial impact of the event. In the case of a longer term extreme precipitation event or drought, in the past Vermilion has implemented water management programs to reduce our reliance on fresh water sources to limit the potential impact on operations.
Chronic: Rising Sea Levels	Vermilion owns and operates assets in the Netherlands. We have identified and assessed the potential risk associated with rising sea levels here, as it has the potential to physically impact our operations due to issues such as flooding, transportation difficulties and supply chain interruptions. Rising sea levels also pose a threat related to the salinization of groundwater.	It has been estimated that a rise in sea level could have a maximum foreseeable financial impact of \$91.3MM at our main gas processing facility Garijp (GTC) in the Netherlands, caused by an extreme tide/extreme wind event 1 in 10000 years. The cost of insurance coverage associated with this risk is estimated at \$0.4MM per annum.	Other than conventional berm protection, there is no measure available to protect Vermilion's assets in the Netherlands in the event that water levels rise to a level resulting in one of our main facilities being temporarily invaded by sea water. Based on Vermilion's assessment of the probability of these events occurring over the next 5 years being less than 0.05%, Vermilion has accepted this level of risk exposure. Vermilion currently includes a review of this risk in our annual risk management process.
Short-term Opportunities (0-3 Years)			
Products and Services: Development of New Products and Services through R&D and Innovation	As Vermilion has developed our emissions quantification programs across the globe, we have developed more robust methods for sharing of technologies and techniques from across our operations, both internally and externally. Our increased focus on tracking emissions has supported the assessment of opportunities across business units and sharing of technical expertise.	As this opportunity is in the early stage of assessment, it is difficult to quantify the financial impact, but it is estimated at up to \$2.0MM per year. Potential also exists for significant cost adjustments, as assets slated for abandonment would be repurposed to enable them to continue to generate energy.	We have technical experts who provide input into renewable energy projects as they are identified. These teams are supported by corporate sustainability staff in connecting internal and external stakeholders. These teams have responsibilities specific to geothermal opportunities as these projects move through their preliminary stages. To further support identification of opportunities, and engagement with stakeholders, Vermilion has appointed sustainability leads in all our business units.

Category / Issue	Description of Impacts ¹	Potential Financial Impact	Management Approach
Short-term Opportunities (0-3 Years)			
Products and Services: Access to New Markets	More stringent global measures to reduce emissions from individual ships by 30 per cent by 2030, established through amendments to MARPOL Annex VI, came into force on Jan 1 2020, limiting the sulphur content of bunker fuel to a maximum of 0.5%. Vermilion's Australian Wando facility produces 4500 bbl/d of low sulphur crude oil that will be sought by refineries in the short term to meet IMO regulations.	Vermilion conservatively foresees achieving a premium of \$10/bbl for its Wando production over the next three years for cumulative incremental revenue of \$49.3MM.	Vermilion continues to access local markets for our low sulphur production, while exploring regions to expand our operations. Our Marketing group ensures that Vermilion meets its contractual obligation with our buyers in terms of volumes, delivery dates and crude quality, and maintain our reputation of being a reliable source of low sulphur feedstock to refineries.
Medium-term Opportunities (3-6 Years)			
Energy Source: Participation in Carbon Market	Under the revised EU ETS Directive in effect 2021-2030, it is anticipated that there will be an active market and consumers for the offset credits generated at some of Vermilion's sustainability initiatives around the world. This upcoming shift in the cap and trade scheme will likely provide opportunities for Vermilion to generate certified energy reduction/offset credits through our geothermal cogeneration projects in France.	Vermilion is not accounting for any short term financial impact. It is estimated that following the change to the EU ETS in Phase 4, the carbon price will stabilize at between approximately €15 and €30 per tCO ₂ e. The financial impact to Vermilion annually is estimated to be up to \$0.5MM.	We are currently evaluating the benefit that certified offset credits from various emission reduction projects across our operations could provide. Examples of projects that have the potential to generate credits is our Tomato Greenhouse and eco-neighbourhood geothermal coproduction projects in France. Vermilion's project assessment framework is applied to each identified opportunity, including considerations associated with emissions offset.
Long-term Opportunities (6-50 Years)			
Products and Services: Shift in Consumer Preferences	Under the Canadian Environmental Protection Act and based on commitments made by the Canadian and Alberta governments relating to COP21, there is a commitment to reduce emissions for coal-fired power generation. Based on this and with a number of power generating facilities in Alberta nearing the end of their service life, the demand for natural gas is likely to increase due to increased use of combined cycle gas turbine (CCGT) power generation. Alberta has also committed to significantly reducing its demand for coal for power generation by 2050.	The short term impact of this regulatory change on gas pricing is anticipated to be low and increase to medium in the mid to long term. Once the regulations have come into effect and the implementation period has occurred, there is a potential to see an impact on the marketable price and demand for natural gas. As a natural gas and oil producer, Vermilion would benefit from an increase in marketable prices for natural gas in our Canadian operations. Based on 2019 production, an increase in gas price of \$1 per MMBTU, the impact to sales would be approximately \$54.0MM.	As we move further into the energy transition, we foresee natural gas playing an impactful role as a less carbon intense fuel than other options (i.e. coal). Vermilion continues to focus on the identification of resources and assets where we have the opportunity to apply our industry leading expertise to optimize production while reducing emissions. An example of our strategy to realize this opportunity is our asset base in Alberta, which currently includes a large liquids rich gas play. Vermilion's marketing team is also actively pursuing options for our natural gas production that will enable Vermilion to achieve the best netbacks on production.
Products and Services: Ability to Diversify Business Activities	Vermilion maintains a diverse, stable global portfolio of oil and gas assets. Our strong record of safe and socially conscious development of energy resources has provided opportunities to access and develop these resources. We see our commitment to sustainability as core to our business, which has provided important organizational focus on emissions quantification and management. As consumers become more aware of and involved in the selection of their energy sources and associated carbon intensity, we believe that Vermilion will continue to be a top quartile choice, providing us with opportunities not available to peer organizations.	The financial impact of changing consumer preferences is difficult to quantify. We foresee opportunities in two distinct areas. We see opportunity in consumers selecting premium energy products, with these products demanding a higher price than other energy sources on the market. Currently we estimate the potential impact of premium pricing in the long-term to be \$1-5 per BOE or \$36.6MM/yr (100,357 boe/d*365days*\$1/boe) based on \$1 at 2019 production levels). The second opportunity we have identified, and are already receiving benefit from, is access to more stringent markets, supported by our environmental and sustainability performance. Vermilion has entered into the German, Hungarian, Croatian, and Slovak oil and gas operations in the last several years. Our sustainability performance has supported our entry into these markets.	Vermilion made the organizational change to established Integrated Sustainability as one of our strategic objectives in 2015. This provided important organizational focus on matters such as environmental performance, including climate change. Our strategy is to continue to support Integrated Sustainability, with personnel who are experts in their field, as well as financially supporting programs and projects that reduce emissions while optimizing production. An example of this is the addition of personnel who have specific responsibilities associated with sustainability in our business units, including study and feasibility assessment of green energy generation.
Energy Source: Shift Toward Decentralized Energy Generation	The carbon intensity of energy used around the world has a direct relationship to where the energy product was generated. Vermilion's business unit structure supports production and distribution of energy products into local markets. This strategy results in the significant reduction of the carbon footprint of our energy when compared to non-local sources.	On an operating netback (sales) basis, based on current estimates, the financial premium of our non-Canadian assets was \$450.0MM.	Vermilion continues to assess where we can access local markets for our production, while exploring regions to expand our operations. The actions taken in the past several years to realize this opportunity include alterations to our structure, our strategic objectives and our operational development plans to support Vermilion as a distributed energy provider, and exploration and development programs in regions with relatively low energy production as compared to consumption (i.e. Hungary).

Notes:

(1) Risk summary is based on our fiscal year 2019 environmental reporting through CDP Climate. Fiscal year 2020 environmental reporting will be available in mid-2021.

Corporate Governance

We are committed to a high standard of corporate governance practices, a dedication that begins at the Board level and extends throughout the Company. We believe good corporate governance is in the best interest of our shareholders, and that successful companies are those that deliver growth and a competitive return along with a commitment to the environment, to the communities where they operate, and to their employees.

We comply with the objectives and guidelines relating to corporate governance adopted by the Canadian Securities Administrators and the Toronto Stock Exchange ("TSX"). In addition, the Board monitors and considers the implementation of corporate governance standards proposed by various regulatory and non-regulatory authorities in Canada. A discussion of corporate governance policies is included each year in our proxy materials for our annual general meeting of shareholders, copies of which are available on SEDAR (www.sedar.com).

As a Canadian reporting issuer with securities listed on the TSX and the New York Stock Exchange ("NYSE"), Vermilion is required to comply with all applicable Canadian requirements adopted by the Canadian Securities Administrators and the TSX, and applicable rules for foreign private issuers adopted by the U.S. Securities and Exchange Commission that give effect to the provisions of the *Sarbanes-Oxley Act of 2002*.

Our corporate governance practices also incorporate many "best practices" derived from those required to be followed by US domestic companies under the NYSE listing standards. We are required by Section 303A.11 of the NYSE Listed Company Manual to identify any significant ways in which our corporate governance practices differ from those required to be followed by US domestic companies under NYSE listing standards. We believe that there are no such significant differences in our corporate governance practices, except as follows:

- *Shareholder Approval of Equity Compensation Plans.* Section 303A.8 of the NYSE Listed Company Manual requires shareholder approval of all "equity compensation plans" and material revisions to those plans. The definition of "equity compensation plans" covers plans that provide for the delivery of newly issued securities, and also plans which rely on securities reacquired on the market by the issuing company for the purpose of redistribution to employees and directors. The TSX rules provide that equity compensation plans and material amendments thereto require shareholder approval only if they involve newly issued securities and the amendments are not otherwise addressed in the plan's amendment procedures. In addition, the TSX rules require that every three years after institution, all unallocated options, rights or other entitlements under equity compensation plans which do not have a fixed maximum aggregate of securities issuable must be approved by shareholders. Vermilion follows the TSX rules with respect to shareholder approval of equity compensation plans and material revisions to those plans.

Disclosure Controls and Procedures

Our officers have established and maintained disclosure controls and procedures and evaluated the effectiveness of these controls in conjunction with our filings.

As of December 31, 2020, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the President, for this specific purpose of acting in the capacity of Chief Executive Officer, and Chief Financial Officer have concluded and certified that our disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

The Chief Executive Officer and the Chief Financial Officer of Vermilion have assessed the effectiveness of Vermilion's internal control over financial reporting as defined in Rule 13a-15 under the US Securities Exchange Act of 1934 and as defined in Canada by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. The assessment was based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The President, for this specific purpose of acting in the capacity of Chief Executive Officer, and the Chief Financial Officer of Vermilion have concluded that Vermilion's internal control over financial reporting was effective as of December 31, 2020. The effectiveness of Vermilion's internal control over financial reporting as of December 31, 2020 has been audited by Deloitte LLP, as reflected in their report included in the 2020 audited annual financial statements filed with

the US Securities and Exchange Commission. No changes were made to Vermilion's internal control over financial reporting during the year ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Supplemental Table 1: Netbacks

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

	Q4 2020			2020			Q4 2019	2019
	Liquids \$/bbl	Natural Gas \$/mcf	Total \$/boe	Liquids \$/bbl	Natural Gas \$/mcf	Total \$/boe	Total \$/boe	Total \$/boe
Canada								
Sales	43.65	2.82	32.45	36.86	2.06	26.38	38.38	37.82
Royalties	(5.03)	(0.06)	(3.08)	(4.25)	(0.05)	(2.55)	(4.48)	(4.30)
Transportation	(2.60)	(0.20)	(2.02)	(2.51)	(0.19)	(1.92)	(1.93)	(1.88)
Operating	(12.92)	(1.41)	(11.05)	(12.05)	(1.26)	(10.13)	(11.30)	(11.09)
Operating netback	23.10	1.15	16.30	18.05	0.56	11.78	20.67	20.55
General and administration			(1.60)			(1.18)	(1.38)	(1.07)
Fund flows from operations netback			14.70			10.60	19.29	19.48
United States								
Sales	39.70	1.97	33.24	39.43	1.77	32.93	43.77	44.17
Royalties	(11.64)	(0.59)	(9.76)	(10.30)	(0.50)	(8.65)	(10.17)	(10.96)
Transportation	(1.06)	—	(0.82)	(0.86)	—	(0.67)	—	—
Operating	(10.05)	(1.48)	(9.77)	(9.16)	(1.39)	(8.97)	(9.56)	(9.59)
Operating netback	16.95	(0.10)	12.89	19.11	(0.12)	14.64	24.04	23.62
General and administration			(5.22)			(3.68)	(4.01)	(4.43)
Fund flows from operations netback			7.67			10.96	20.03	19.19
France								
Sales	58.11	—	58.11	55.39	—	55.39	80.87	83.01
Royalties	(10.28)	—	(10.28)	(9.74)	—	(9.75)	(10.67)	(11.15)
Transportation	(4.66)	—	(4.66)	(4.44)	—	(4.44)	(3.34)	(5.49)
Operating	(17.73)	—	(17.73)	(17.36)	—	(17.36)	(16.78)	(15.57)
Operating netback	25.44	—	25.44	23.85	—	23.84	50.08	50.80
General and administration			(3.68)			(3.98)	(5.01)	(3.91)
Current income taxes			(0.15)			(0.04)	(5.16)	(5.45)
Fund flows from operations netback			21.61			19.82	39.91	41.44
Netherlands								
Sales	49.63	5.70	34.40	45.99	3.79	23.02	33.88	37.37
Royalties	—	(0.04)	(0.22)	—	(0.03)	(0.16)	(0.17)	(0.49)
Operating	—	(1.97)	(11.64)	—	(1.92)	(11.38)	(13.11)	(10.64)
Operating netback	49.63	3.69	22.54	45.99	1.84	11.48	20.60	26.24
General and administration			—			(0.43)	(1.03)	(0.88)
Current income taxes			4.74			1.32	15.05	1.31
Fund flows from operations netback			27.28			12.37	34.62	26.67
Germany								
Sales	51.53	5.64	39.87	48.43	3.69	30.40	39.14	45.75
Royalties	(1.17)	1.23	4.44	(2.18)	(0.05)	(0.88)	(1.99)	(4.20)
Transportation	(13.10)	(0.32)	(5.74)	(11.73)	(0.36)	(5.19)	(3.27)	(4.09)
Operating	(20.53)	(3.56)	(21.07)	(21.08)	(2.87)	(18.42)	(25.14)	(19.93)
Operating netback	16.73	2.99	17.50	13.44	0.41	5.91	8.74	17.53
General and administration			(7.44)			(5.80)	(6.64)	(6.75)
Fund flows from operations netback			10.06			0.11	2.10	10.78
Ireland								
Sales	—	7.23	43.38	—	4.26	25.59	33.65	36.81
Transportation	—	(0.28)	(1.68)	—	(0.32)	(1.94)	(1.55)	(1.57)
Operating	—	(1.01)	(6.06)	—	(1.11)	(6.67)	(4.40)	(4.39)
Operating netback	—	5.94	35.64	—	2.83	16.98	27.70	30.85
General and administration			(0.07)			(0.26)	(0.75)	(0.88)
Fund flows from operations netback			35.57			16.72	26.95	29.97

	Liquids \$/bbl	Q4 2020 Natural Gas \$/mcf	Total \$/boe	Liquids \$/bbl	2020 Natural Gas \$/mcf	Total \$/boe	Q4 2019 Total \$/boe	2019 Total \$/boe
Australia								
Sales	75.99	—	75.99	76.70	—	76.70	88.35	93.33
Operating	(36.39)	—	(36.39)	(29.59)	—	(29.59)	(34.09)	(25.20)
PRRT ⁽¹⁾	(10.18)	—	(10.18)	(10.93)	—	(10.93)	(5.87)	(13.13)
Operating netback	29.42	—	29.42	36.18	—	36.18	48.39	55.00
General and administration			(2.56)			(2.08)	(5.97)	(2.50)
Current income taxes			7.55			1.14	(2.00)	(4.25)
Fund flows from operations netback			34.41			35.24	40.42	48.25

Total Company								
Sales	49.14	4.13	38.57	44.22	2.77	31.90	44.00	46.12
Realized hedging gain (loss)	(1.15)	0.29	0.10	3.46	0.45	3.11	2.57	2.30
Royalties	(6.05)	—	(3.43)	(5.22)	(0.06)	(3.04)	(4.60)	(4.47)
Transportation	(2.87)	(0.18)	(2.08)	(2.63)	(0.18)	(1.93)	(1.76)	(1.98)
Operating	(15.79)	(1.56)	(13.00)	(14.53)	(1.44)	(11.89)	(12.52)	(12.01)
PRRT ⁽¹⁾	(0.87)	—	(0.49)	(1.04)	—	(0.57)	(0.16)	(0.71)
Operating netback	22.41	2.68	19.67	24.26	1.54	17.58	27.53	29.25
General and administration			(2.27)			(1.73)	(1.88)	(1.61)
Interest expense			(2.42)			(2.14)	(2.17)	(2.22)
Realized foreign exchange loss			0.16			0.32	0.23	(0.14)
Other income			0.56			0.12	0.03	0.21
Corporate income taxes			0.80			0.17	0.66	(0.72)
Fund flows from operations netback			16.50			14.32	24.40	24.77

⁽¹⁾ Vermilion considers Australian PRRT to be an operating item and, accordingly, has included PRRT in the calculation of operating netbacks. Current income taxes presented above excludes PRRT.

Supplemental Table 2: Hedges

The prices in these tables may represent the weighted averages for several contracts with foreign currency amounts translated to the disclosure currency using forward rates as at the month-end date. The weighted average price for the portfolio of options listed below may not have the same payoff profile as the individual contracts. As such, the presentation of the weighted average prices is purely for indicative purposes.

The following tables outline Vermilion's outstanding risk management positions as at December 31, 2020:

	Unit	Currency	Bought Put Volume	Weighted Average Bought Put Price	Sold Call Volume	Weighted Average Sold Call Price	Sold Put Volume	Weighted Average Sold Put Price	Sold Swap Volume	Weighted Average Sold Swap Price	Bought Swap Volume	Weighted Average Bought Swap Price
Dated Brent												
Q1 2021	bbl	USD	1,000	47.50	1,000	53.75	1,000	40.00	2,000	49.18	—	—
Q2 2021	bbl	USD	—	—	—	—	—	—	500	47.50	—	—
WTI												
Q1 2021	bbl	USD	4,500	45.00	4,500	51.26	4,500	37.50	4,300	45.51	—	—
Q2 2021	bbl	USD	4,000	45.00	4,000	53.50	4,000	37.50	2,150	45.54	—	—
AECO												
Q2 2021	mcf	CAD	—	—	—	—	—	—	9,478	2.12	—	—
Q3 2021	mcf	CAD	—	—	—	—	—	—	9,478	2.12	—	—
Q4 2021	mcf	CAD	—	—	—	—	—	—	3,194	2.12	—	—
AECO Basis (AECO less NYMEX Henry Hub)												
Q1 2021	mcf	USD	—	—	—	—	—	—	30,000	(1.11)	—	—
Q2 2021	mcf	USD	—	—	—	—	—	—	45,000	(1.08)	—	—
Q3 2021	mcf	USD	—	—	—	—	—	—	45,000	(1.08)	—	—
Q4 2021	mcf	USD	—	—	—	—	—	—	35,054	(1.09)	—	—
Q1 2022	mcf	USD	—	—	—	—	—	—	30,000	(1.10)	—	—
Q2 2022	mcf	USD	—	—	—	—	—	—	35,000	(1.09)	—	—
Q3 2022	mcf	USD	—	—	—	—	—	—	35,000	(1.09)	—	—
Q4 2022	mcf	USD	—	—	—	—	—	—	11,793	(1.09)	—	—
NYMEX Henry Hub												
Q1 2021	mcf	USD	15,000	2.73	15,000	2.90	—	—	33,500	2.86	—	—
Q2 2021	mcf	USD	10,000	2.65	10,000	2.77	—	—	28,500	2.83	—	—
Q3 2021	mcf	USD	10,000	2.65	10,000	2.77	—	—	28,500	2.83	—	—
Q4 2021	mcf	USD	10,000	2.65	10,000	2.77	—	—	21,870	2.78	—	—
Ventura Basis (Ventura less NYMEX Henry Hub)												
Q1 2021	mcf	USD	—	—	—	—	—	—	—	—	10,000	0.04
Q2 2021	mcf	USD	—	—	—	—	—	—	—	—	10,000	0.04
Q3 2021	mcf	USD	—	—	—	—	—	—	—	—	10,000	0.04
Q4 2021	mcf	USD	—	—	—	—	—	—	—	—	3,370	0.04
SoCal Border												
Q1 2021	mcf	USD	—	—	—	—	—	—	5,000	3.40	—	—
Conway Propane												
Q1 2021	bbl	USD	—	—	—	—	—	—	500	56% WTI	—	—

	Unit	Currency	Bought Put Volume	Weighted Average Bought Put Price	Sold Call Volume	Weighted Average Sold Call Price	Sold Put Volume	Weighted Average Sold Put Price	Sold Swap Volume	Weighted Average Sold Swap Price	Bought Swap Volume	Weighted Average Bought Swap Price
NBP												
Q1 2021	mcf	EUR	58,962	5.37	61,419	5.45	58,962	3.88	2,457	4.69	—	—
Q2 2021	mcf	EUR	49,135	5.37	49,135	5.43	49,135	3.87	2,457	4.69	—	—
Q3 2021	mcf	EUR	49,135	5.37	49,135	5.42	49,135	3.87	2,457	4.69	—	—
Q4 2021	mcf	EUR	58,962	5.37	58,962	5.36	58,962	3.88	2,457	4.69	—	—
Q1 2022	mcf	EUR	34,394	5.18	34,394	5.88	34,394	3.63	2,457	4.69	—	—
Q2 2022	mcf	EUR	27,024	5.07	27,024	5.64	27,024	3.50	2,457	4.69	—	—
Q3 2022	mcf	EUR	14,740	4.86	14,740	5.42	14,740	3.42	2,457	4.69	—	—
Q4 2022	mcf	EUR	14,740	4.86	14,740	5.41	14,740	3.42	2,457	4.69	—	—
Q1 2023	mcf	EUR	7,370	4.74	7,370	4.96	7,370	3.32	—	—	—	—
TTF												
Q2 2021	mcf	EUR	2,457	4.25	2,457	3.93	2,457	2.93	—	—	—	—
Q3 2021	mcf	EUR	2,457	4.25	2,457	3.92	2,457	2.93	—	—	—	—
Q1 2022	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—	—	—
Q2 2022	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—	—	—
Q3 2022	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—	—	—
Q4 2022	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—	—	—
Q1 2023	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—	—	—

VET Equity Swaps				Initial Share Price		Share Volume
Swap	Jan 2020 - Sep 2021			20.9788	CAD	2,250,000
Swap	Jan 2020 - Oct 2021			22.4587	CAD	1,500,000

Foreign Currency Swaps		Notional Amount		Notional Amount		Average Rate
Swap	Jan 2021	1,200,342,790	USD	1,570,298,550	CAD	1.3082

The following sold option instruments allow the counterparties, at the specified date, to enter into a derivative instrument contract with Vermilion at the detailed terms:

Period if Option Exercised	Unit	Currency	Option Expiration Date	Bought Put Volume	Weighted Average Bought Put Price	Sold Call Volume	Weighted Average Sold Call Price	Sold Put Volume	Weighted Average Sold Put Price	Sold Swap Volume	Weighted Average Sold Swap Price
NYMEX											
Apr 2021 - Oct 2021	mcf	USD	24-Mar-21	—	—	—	—	—	—	10,000	2.90
NBP											
Jan 2022 - Dec 2022	mcf	EUR	30-Jun-21	—	—	—	—	—	—	2,457	5.13
Dated Brent											
Apr 2021 - Mar 2022	bbl	USD	31-Mar-21	—	—	—	—	—	—	500	52.00

Supplemental Table 3: Capital Expenditures and Acquisitions

By classification (\$M)	Q4 2020	Q3 2020	Q4 2019	2020	2019
Drilling and development	52,903	29,762	97,114	352,481	486,677
Exploration and evaluation	6,991	1,568	3,511	14,721	36,487
Capital expenditures	59,894	31,330	100,625	367,202	523,164

Acquisitions	4,821	6,720	9,165	25,810	38,472
Acquisitions	4,821	6,720	9,165	25,810	38,472

By category (\$M)	Q4 2020	Q3 2020	Q4 2019	2020	2019
Drilling, completion, new well equip and tie-in, workovers and recompletions	42,063	13,220	72,515	285,401	411,390
Production equipment and facilities	21,866	15,800	29,221	70,483	87,711
Seismic, studies, land and other	(4,035)	2,310	(1,111)	11,318	24,063
Capital expenditures	59,894	31,330	100,625	367,202	523,164
Acquisitions	4,821	6,720	9,165	25,810	38,472
Total capital expenditures and acquisitions	64,715	38,050	109,790	393,012	561,636

Capital expenditures by country (\$M)	Q4 2020	Q3 2020	Q4 2019	2020	2019
Canada	32,942	3,837	66,643	199,141	293,744
United States	839	5,738	3,132	66,120	57,196
France	12,830	12,638	8,745	42,328	74,641
Netherlands	3,417	1,553	9,651	10,105	23,605
Germany	3,127	1,558	5,177	15,819	21,684
Ireland	211	928	923	1,823	1,372
Australia	4,392	3,926	6,452	24,520	30,550
Corporate	2,136	1,152	(98)	7,346	20,372
Total capital expenditures	59,894	31,330	100,625	367,202	523,164

Acquisitions by country (\$M)	Q4 2020	Q3 2020	Q4 2019	2020	2019
Canada	791	6,621	5,003	13,111	24,064
United States	946	90	575	7,643	3,799
Netherlands	—	—	—	—	908
Germany	828	9	1,456	1,420	7,570
Corporate	2,256	—	2,131	3,636	2,131
Total acquisitions	4,821	6,720	9,165	25,810	38,472

In 2020, included in cash expenditures on acquisitions of \$25.8 million is: \$14.4 million relating to the carry component of farm-in arrangements; \$11.7 million paid to acquire land; \$0.5 million in asset improvements incurred subsequent to acquisitions for compliance with safety, environmental, and Vermilion's operating standards; and \$0.8 million net received from vendors in relation to the purchase of assets from other oil and gas producers.

Supplemental Table 4: Production

	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18
Canada												
Light and medium crude oil (bbls/d)	19,301	19,847	22,545	22,767	23,259	23,610	23,973	25,067	25,640	24,602	13,103	5,960
Condensate ⁽¹⁾ (bbls/d)	4,662	5,200	5,047	4,634	4,140	4,072	4,872	4,096	3,918	3,875	3,905	3,312
Other NGLs ⁽¹⁾ (bbls/d)	7,334	8,350	8,248	6,943	7,005	6,632	7,352	6,968	6,816	6,126	5,589	5,106
NGLs (bbls/d)	11,996	13,550	13,295	11,577	11,145	10,704	12,224	11,064	10,734	10,001	9,494	8,418
Conventional natural gas (mmcf/d)	135.27	155.15	164.08	151.16	145.14	145.14	151.87	151.37	146.65	136.77	127.32	106.21
Total (boe/d)	53,840	59,256	63,187	59,537	58,593	58,504	61,507	61,360	60,814	57,397	43,817	32,078
United States												
Light and medium crude oil (bbls/d)	2,495	3,243	3,971	2,481	3,149	2,717	2,421	1,750	1,582	1,455	652	573
Condensate ⁽¹⁾ (bbls/d)	1	6	6	6	12	4	63	(8)	23	6	3	1
Other NGLs ⁽¹⁾ (bbls/d)	1,294	1,158	1,340	1,079	1,156	1,140	754	929	998	714	62	20
NGLs (bbls/d)	1,295	1,164	1,346	1,085	1,168	1,144	817	921	1,021	720	65	21
Conventional natural gas (mmcf/d)	6.87	7.94	8.35	6.72	8.20	6.38	7.06	5.89	5.65	4.82	0.40	0.15
Total (boe/d)	4,934	5,730	6,708	4,685	5,683	4,925	4,414	3,653	3,545	2,979	784	618
France												
Light and medium crude oil (bbls/d)	9,255	9,347	7,046	9,957	10,264	10,347	9,800	11,342	11,317	11,407	11,683	11,037
Conventional natural gas (mmcf/d)	—	—	—	—	—	—	—	0.77	0.82	—	—	—
Total (boe/d)	9,255	9,347	7,046	9,957	10,264	10,347	9,800	11,470	11,454	11,407	11,683	11,037
Netherlands												
Light and medium crude oil (bbls/d)	1	—	1	3	4	1	9	—	—	—	—	—
Condensate ⁽¹⁾ (bbls/d)	99	83	86	84	86	81	91	93	112	84	87	77
NGLs (bbls/d)	99	83	86	84	86	81	91	93	112	84	87	77
Conventional natural gas (mmcf/d)	42.95	46.09	47.31	48.33	47.99	44.08	52.90	51.51	51.82	44.37	43.49	44.79
Total (boe/d)	7,257	7,764	7,972	8,143	8,088	7,429	8,917	8,677	8,749	7,479	7,335	7,541
Germany												
Light and medium crude oil (bbls/d)	960	964	1,039	909	800	845	1,047	978	913	1,019	1,008	1,078
Conventional natural gas (mmcf/d)	11.50	11.25	13.23	14.64	15.44	14.54	14.56	16.71	16.94	14.88	14.63	16.19
Total (boe/d)	2,876	2,839	3,244	3,349	3,373	3,269	3,474	3,763	3,736	3,498	3,447	3,777
Ireland												
Conventional natural gas (mmcf/d)	34.76	35.12	38.57	41.38	42.30	43.21	49.21	51.71	52.03	51.38	56.56	60.87
Total (boe/d)	5,793	5,853	6,428	6,896	7,049	7,202	8,201	8,619	8,672	8,563	9,426	10,144
Australia												
Light and medium crude oil (bbls/d)	3,781	4,549	5,299	4,041	4,548	5,564	6,689	5,862	4,174	4,704	4,132	4,971
Total (boe/d)	3,781	4,549	5,299	4,041	4,548	5,564	6,689	5,862	4,174	4,704	4,132	4,971
Central and Eastern Europe												
Conventional natural gas (mmcf/d)	0.67	0.80	2.89	3.27	1.66	—	—	—	2.86	1.17	—	—
Total (boe/d)	111	132	483	546	276	—	—	—	477	195	—	—
Consolidated												
Light and medium crude oil (bbls/d)	35,793	37,951	39,899	40,157	42,024	43,084	43,938	45,001	43,625	43,186	30,579	23,619
Condensate ⁽¹⁾ (bbls/d)	4,762	5,289	5,142	4,724	4,237	4,158	5,026	4,181	4,053	3,965	3,995	3,389
Other NGLs ⁽¹⁾ (bbls/d)	8,627	9,509	9,588	8,022	8,160	7,772	8,107	7,897	7,815	6,839	5,651	5,126
NGLs (bbls/d)	13,389	14,798	14,730	12,746	12,397	11,930	13,133	12,078	11,868	10,804	9,646	8,515
Conventional natural gas (mmcf/d)	232.00	256.34	274.42	265.51	260.72	253.36	275.60	277.96	276.77	253.38	242.40	228.20
Total (boe/d)	87,848	95,471	100,366	97,154	97,875	97,239	103,003	103,404	101,621	96,222	80,625	70,167

	2020	2019	2018	2017	2016	2015
Canada						
Light and medium crude oil (bbls/d)	21,106	23,971	17,400	6,015	6,657	9,549
Condensate ⁽¹⁾ (bbls/d)	4,886	4,295	3,754	3,036	2,514	1,807
Other NGLs ⁽¹⁾ (bbls/d)	7,719	6,988	5,914	4,144	2,552	2,301
NGLs (bbls/d)	12,605	11,283	9,668	7,180	5,066	4,108
Conventional natural gas (mmcf/d)	151.38	148.35	129.37	97.89	84.29	71.64
Total (boe/d)	58,942	59,979	48,630	29,510	25,771	25,598
United States						
Light and medium crude oil (bbls/d)	3,046	2,514	1,069	662	393	231
Condensate ⁽¹⁾ (bbls/d)	5	18	8	4	—	—
Other NGLs ⁽¹⁾ (bbls/d)	1,218	996	452	50	29	7
NGLs (bbls/d)	1,223	1,014	460	54	29	7
Conventional natural gas (mmcf/d)	7.47	6.89	2.78	0.39	0.21	0.05
Total (boe/d)	5,514	4,675	1,992	781	457	247
France						
Light and medium crude oil (bbls/d)	8,903	10,435	11,362	11,084	11,896	12,267
Conventional natural gas (mmcf/d)	—	0.19	0.21	—	0.44	0.97
Total (boe/d)	8,903	10,467	11,396	11,085	11,970	12,429
Netherlands						
Light and medium crude oil (bbls/d)	1	3	—	—	—	—
Condensate ⁽¹⁾ (bbls/d)	88	88	90	90	88	99
NGLs (bbls/d)	88	88	90	90	88	99
Conventional natural gas (mmcf/d)	46.16	49.10	46.13	40.54	47.82	44.76
Total (boe/d)	7,782	8,274	7,779	6,847	8,058	7,559
Germany						
Light and medium crude oil (bbls/d)	968	917	1,004	1,060	—	—
Conventional natural gas (mmcf/d)	12.65	15.31	15.66	19.39	14.90	15.78
Total (boe/d)	3,076	3,468	3,614	4,291	2,483	2,630
Ireland						
Conventional natural gas (mmcf/d)	37.44	46.57	55.17	58.43	50.89	0.03
Total (boe/d)	6,240	7,762	9,195	9,737	8,482	5
Australia						
Light and medium crude oil (bbls/d)	4,416	5,662	4,494	5,770	6,304	6,454
Total (boe/d)	4,416	5,662	4,494	5,770	6,304	6,454
Central and Eastern Europe						
Conventional natural gas (mmcf/d)	1.90	0.42	1.02	—	—	—
Total (boe/d)	317	70	169	—	—	—
Consolidated						
Light and medium crude oil (bbls/d)	38,441	43,502	35,329	24,591	25,250	28,502
Condensate ⁽¹⁾ (bbls/d)	4,980	4,400	3,853	3,130	2,602	1,906
Other NGLs ⁽¹⁾ (bbls/d)	8,937	7,984	6,366	4,194	2,582	2,308
NGLs (bbls/d)	13,917	12,384	10,219	7,324	5,184	4,214
Conventional natural gas (mmcf/d)	256.99	266.82	250.33	216.64	198.55	133.24
Total (boe/d)	95,190	100,357	87,270	68,021	63,526	54,922

⁽¹⁾ Under National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities", disclosure of production volumes should include segmentation by product type as defined in the instrument. This table provides a reconciliation from "crude oil and condensate", "NGLs" and "natural gas" to the product types. Elsewhere in this report, references to "crude oil" mean "light crude oil and medium crude oil" and references to "natural gas" mean "conventional natural gas". Production volumes reported are based on quantities as measured at the first point of sale.

Supplemental Table 5: Segmented Financial Results

(\$M)	Three Months Ended December 31, 2020								Total
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	
Drilling and development	32,942	839	12,749	3,412	3,221	211	4,392	(4,863)	52,903
Exploration and evaluation	—	—	81	5	(94)	—	—	6,999	6,991
Crude oil and condensate sales	112,489	11,796	53,198	455	4,720	1	30,148	—	212,807
NGL sales	13,195	2,046	—	—	—	—	—	—	15,241
Natural gas sales	35,035	1,247	—	22,512	5,961	23,117	—	278	88,150
Sales of purchased commodities	—	—	—	—	—	—	—	31,902	31,902
Royalties	(15,240)	(4,430)	(9,416)	(150)	1,190	—	—	(62)	(28,108)
Revenue from external customers	145,479	10,659	43,782	22,817	11,871	23,118	30,148	32,118	319,992
Purchased commodities	—	—	—	—	—	—	—	(31,902)	(31,902)
Transportation	(9,987)	(371)	(4,264)	—	(1,537)	(898)	—	—	(17,057)
Operating	(54,725)	(4,437)	(16,230)	(7,772)	(5,643)	(3,232)	(14,438)	(99)	(106,576)
General and administration	(7,929)	(2,369)	(3,369)	1	(1,992)	(38)	(1,015)	(1,931)	(18,642)
PRRT	—	—	—	—	—	—	(4,038)	—	(4,038)
Corporate income taxes	—	—	(141)	3,164	—	—	2,995	514	6,532
Interest expense	—	—	—	—	—	—	—	(19,808)	(19,808)
Realized gain on derivative instruments	—	—	—	—	—	—	—	790	790
Realized foreign exchange gain	—	—	—	—	—	—	—	1,329	1,329
Realized other income	—	—	—	—	—	—	—	4,592	4,592
Fund flows from operations	72,838	3,482	19,778	18,210	2,699	18,950	13,652	(14,397)	135,212

(\$M)	Year Ended December 31, 2020								Total
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	
Total assets	1,805,464	328,902	703,567	130,063	198,357	257,990	105,898	578,898	4,109,139
Drilling and development	199,141	66,120	42,145	10,331	13,005	1,823	24,520	(4,604)	352,481
Exploration and evaluation	—	—	183	(226)	2,814	—	—	11,950	14,721
Crude oil and condensate sales	418,610	55,099	182,292	1,502	17,143	13	141,452	8	816,119
NGL sales	36,204	6,513	—	—	—	—	—	—	42,717
Natural gas sales	114,377	4,834	—	64,073	17,067	58,433	—	1,925	260,709
Sales of purchased commodities	—	—	—	—	—	—	—	127,853	127,853
Royalties	(54,961)	(17,446)	(32,069)	(444)	(990)	—	—	(644)	(106,554)
Revenue from external customers	514,230	49,000	150,223	65,131	33,220	58,446	141,452	129,142	1,140,844
Purchased commodities	—	—	—	—	—	—	—	(127,853)	(127,853)
Transportation	(41,494)	(1,349)	(14,604)	—	(5,839)	(4,425)	—	—	(67,711)
Operating	(218,596)	(18,108)	(57,128)	(32,410)	(20,732)	(15,232)	(54,581)	(464)	(417,251)
General and administration	(25,462)	(7,420)	(13,108)	(1,220)	(6,532)	(594)	(3,841)	(2,663)	(60,840)
PRRT	—	—	—	—	—	—	(20,151)	—	(20,151)
Corporate income taxes	—	—	(141)	3,774	—	—	2,106	71	5,810
Interest expense	—	—	—	—	—	—	—	(75,077)	(75,077)
Realized gain on derivative instruments	—	—	—	—	—	—	—	109,093	109,093
Realized foreign exchange gain	—	—	—	—	—	—	—	11,110	11,110
Realized other income	—	—	—	—	—	—	—	4,091	4,091
Fund flows from operations	228,678	22,123	65,242	35,275	117	38,195	64,985	47,450	502,065

Supplemental Table 6: Operational and Financial Data by Core Region

Production volumes ⁽¹⁾

	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18
North America												
Crude oil and condensate (bbls/d)	26,459	28,296	31,569	29,888	30,560	30,403	31,329	30,905	31,163	29,938	17,663	9,846
NGLs (bbls/d)	8,628	9,508	9,588	8,022	8,161	7,772	8,106	7,897	7,814	6,840	5,651	5,126
Natural gas (mmcf/d)	142.13	163.09	172.43	157.88	153.34	151.52	158.93	157.26	152.30	141.59	127.72	106.35
Total (boe/d)	58,774	64,986	69,895	64,222	64,276	63,429	65,921	65,013	64,359	60,376	44,601	32,696
International												
Crude oil and condensate (bbls/d)	14,096	14,943	13,471	14,994	15,702	16,838	17,636	18,275	16,516	17,214	16,910	17,163
NGLs (bbls/d)	—	—	—	—	—	—	—	—	—	—	—	—
Natural gas (mmcf/d)	89.86	93.25	101.99	107.63	107.38	101.83	116.67	120.70	124.48	111.79	114.68	121.85
Total (boe/d)	29,073	30,484	30,472	32,932	33,598	33,811	37,081	38,391	37,262	35,846	36,023	37,470
Consolidated												
Crude oil and condensate (bbls/d)	40,555	43,240	45,041	44,881	46,261	47,242	48,964	49,182	47,678	47,151	34,574	27,008
NGLs (bbls/d)	8,627	9,509	9,588	8,022	8,160	7,772	8,107	7,897	7,815	6,839	5,651	5,126
Natural gas (mmcf/d)	232.00	256.34	274.42	265.51	260.72	253.36	275.60	277.96	276.77	253.38	242.40	228.20
Total (boe/d)	87,848	95,471	100,366	97,154	97,875	97,239	103,003	103,404	101,621	96,222	80,625	70,167

⁽¹⁾ Please refer to Supplemental Table 4 "Production" for disclosure by product type.

Sales volumes

	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18
North America												
Crude oil and condensate (bbls/d)	26,459	28,297	31,569	29,888	30,560	30,404	31,327	30,906	31,162	29,938	17,664	9,846
NGLs (bbls/d)	8,628	9,508	9,588	8,022	8,161	7,772	8,106	7,897	7,814	6,840	5,651	5,126
Natural gas (mmcf/d)	142.13	163.09	172.43	157.88	153.34	151.52	158.93	157.26	152.30	141.59	127.72	106.35
Total (boe/d)	58,774	64,986	69,895	64,222	64,276	63,429	65,921	65,013	64,359	60,376	44,601	32,696
International												
Crude oil and condensate (bbls/d)	15,359	15,689	12,202	17,090	13,864	18,575	16,009	20,163	16,458	16,559	16,991	16,078
NGLs (bbls/d)	—	—	—	—	—	—	—	—	—	—	—	77
Natural gas (mmcf/d)	89.86	93.25	101.99	107.63	107.38	101.83	116.67	120.70	124.48	111.02	114.68	121.85
Total (boe/d)	30,336	31,229	29,201	35,028	31,760	35,547	35,454	40,279	37,204	35,062	36,104	36,462
Consolidated												
Crude oil and condensate (bbls/d)	41,818	43,985	43,771	46,977	44,423	48,979	47,337	51,068	47,620	46,368	34,655	26,001
NGLs (bbls/d)	8,627	9,509	9,588	8,022	8,160	7,772	8,107	7,897	7,815	6,839	5,651	5,126
Natural gas (mmcf/d)	232.00	256.34	274.42	265.51	260.72	253.36	275.60	277.96	276.77	253.38	242.40	228.20
Total (boe/d)	89,111	96,217	99,096	99,250	96,037	98,976	101,377	105,291	101,563	95,437	80,706	69,159

Financial results

	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18
North America												
Crude oil and condensate sales (\$/bbl)	51.06	49.79	28.94	50.25	66.31	66.67	72.40	65.95	54.90	80.22	79.66	75.13
NGL sales (\$/bbl)	19.20	15.04	8.94	8.92	14.63	6.14	11.25	22.49	25.70	27.97	26.06	25.37
Natural gas sales (\$/mcf)	2.77	2.02	1.60	1.92	2.29	1.18	1.15	2.52	1.79	1.46	1.09	1.95
Sales (\$/boe)	32.51	28.94	18.24	29.22	38.86	35.52	38.56	40.17	33.94	46.37	37.98	32.96
Royalties (\$/boe)	(3.64)	(3.58)	(1.67)	(3.54)	(4.98)	(4.93)	(4.22)	(5.00)	(5.01)	(6.71)	(4.17)	(3.73)
Transportation (\$/boe)	(1.92)	(1.74)	(1.72)	(1.91)	(1.76)	(1.78)	(1.63)	(1.83)	(1.88)	(1.63)	(1.28)	(1.54)
Operating (\$/boe)	(10.94)	(7.82)	(9.60)	(11.93)	(11.15)	(10.67)	(10.66)	(11.46)	(10.96)	(10.48)	(8.90)	(8.38)
General and administration (\$/boe)	(1.94)	(0.78)	(1.52)	(0.84)	(0.97)	(0.60)	(1.04)	(0.83)	(0.28)	(0.36)	(1.43)	(0.85)
Corporate income taxes (\$/boe)	0.04	(0.02)	(0.02)	(0.04)	(0.11)	0.09	(0.02)	(0.03)	0.10	(0.16)	(0.23)	0.22
PRRT (\$/boe)	—	—	—	—	—	—	—	—	—	—	—	—
Fund flows netback (\$/boe)	14.12	14.99	3.72	10.96	19.89	17.63	20.99	21.03	15.91	27.04	21.97	18.68
Fund flows from operations	76,375	89,635	23,639	64,048	117,623	102,867	125,893	123,071	94,200	150,202	89,177	54,961
Capital expenditures	(33,781)	(9,575)	(23,979)	(197,926)	(69,775)	(91,027)	(42,047)	(148,091)	(93,092)	(101,223)	(39,396)	(84,983)
Free cash flow	42,594	80,060	(340)	(133,878)	47,848	11,840	83,846	(25,020)	1,108	48,979	49,781	(30,022)
International												
Crude oil and condensate sales (\$/bbl)	62.65	58.19	50.27	73.35	82.14	84.55	93.28	84.95	87.56	95.32	95.65	83.41
NGL sales (\$/bbl)	—	—	—	—	—	—	—	—	—	—	—	—
Natural gas sales (\$/mcf)	6.27	2.91	2.28	4.44	5.49	4.29	5.73	8.46	10.78	10.34	8.86	9.17
Sales (\$/boe)	50.30	37.94	28.98	49.42	54.42	56.46	60.98	67.87	74.80	77.76	73.16	67.43
Royalties (\$/boe)	(3.02)	(3.32)	(2.16)	(3.27)	(3.85)	(3.89)	(3.97)	(3.89)	(4.16)	(5.13)	(4.44)	(3.66)
Transportation (\$/boe)	(2.40)	(2.28)	(2.04)	(1.94)	(1.77)	(2.76)	(3.40)	(1.66)	(1.70)	(1.45)	(1.78)	(1.72)
Operating (\$/boe)	(16.99)	(15.18)	(14.35)	(16.13)	(15.28)	(13.13)	(11.76)	(15.28)	(13.89)	(12.26)	(13.03)	(13.16)
General and administration (\$/boe)	(2.92)	(2.53)	(2.72)	(2.63)	(3.70)	(3.10)	(2.93)	(2.27)	(3.27)	(3.49)	(2.55)	(2.81)
Corporate income taxes (\$/boe)	2.25	0.04	(0.02)	(0.11)	2.22	(1.55)	(3.63)	(4.30)	(2.49)	(2.65)	(3.57)	(2.85)
PRRT (\$/boe)	(1.45)	(1.27)	(1.21)	(2.90)	(0.50)	(1.78)	(2.56)	(2.87)	0.71	0.08	(0.81)	(1.48)
Fund flows netback (\$/boe)	25.77	13.40	6.47	22.44	31.54	30.26	32.73	37.60	49.99	52.88	46.97	41.75
Fund flows from operations	71,934	38,498	17,193	71,526	92,160	98,955	105,600	136,298	171,119	170,563	154,319	137,002
Capital expenditures	(26,113)	(21,755)	(18,295)	(35,778)	(30,850)	(36,852)	(50,560)	(53,962)	(70,488)	(44,962)	(40,588)	(43,482)
Free cash flow	45,821	16,743	(1,102)	35,748	61,310	62,103	55,040	82,336	100,631	125,601	113,731	93,520
	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18
Consolidated												
Crude oil and condensate sales (\$/bbl)	55.31	52.79	34.89	58.66	71.25	73.45	79.46	73.45	66.19	85.84	87.50	80.02
NGL sales (\$/bbl)	19.20	15.04	8.94	8.92	14.63	6.14	11.25	22.49	25.69	27.97	26.06	25.37
Natural gas sales (\$/mcf)	4.13	2.34	1.85	2.94	3.61	2.43	3.09	5.10	5.83	5.35	4.77	5.81
Sales (\$/boe)	38.57	31.86	21.40	36.35	44.01	43.04	46.40	50.77	48.90	57.90	53.72	51.13
Royalties (\$/boe)	(3.43)	(3.50)	(1.81)	(3.45)	(4.60)	(4.56)	(4.13)	(4.58)	(4.70)	(6.13)	(4.29)	(3.69)
Transportation (\$/boe)	(2.08)	(1.92)	(1.81)	(1.92)	(1.76)	(2.13)	(2.25)	(1.76)	(1.81)	(1.56)	(1.50)	(1.64)
Operating (\$/boe)	(13.00)	(10.21)	(11.00)	(13.41)	(12.52)	(11.55)	(11.04)	(12.92)	(12.04)	(11.13)	(10.75)	(10.90)
General and administration (\$/boe)	(2.27)	(1.35)	(1.88)	(1.47)	(1.88)	(1.50)	(1.70)	(1.38)	(1.37)	(1.51)	(1.93)	(1.88)
Corporate income taxes (\$/boe)	0.80	—	(0.02)	(0.06)	0.66	(0.50)	(1.28)	(1.66)	(0.85)	(1.07)	(1.73)	(1.40)
PRRT (\$/boe)	(0.49)	(0.41)	(0.36)	(1.02)	(0.16)	(0.64)	(0.90)	(1.10)	0.26	0.03	(0.36)	(0.78)
Interest (\$/boe)	(2.42)	(1.97)	(1.98)	(2.21)	(2.17)	(2.16)	(2.34)	(2.21)	(2.23)	(2.25)	(2.26)	(2.50)
Realized derivatives (\$/boe)	0.10	0.47	6.07	5.47	2.57	4.06	1.54	1.09	(3.03)	(4.26)	(3.79)	(2.85)
Realized foreign exchange (\$/boe)	0.16	(0.31)	0.44	0.94	0.23	(0.37)	(0.17)	(0.22)	0.63	(0.35)	(0.56)	0.25
Realized other (\$/boe)	0.56	0.29	0.03	(0.37)	0.03	0.04	0.02	0.73	0.03	0.02	0.03	0.03
Fund flows netback (\$/boe)	16.49	12.97	9.08	18.85	24.40	23.74	24.14	26.76	23.80	29.69	26.58	25.77
Fund flows from operations	135,212	114,776	81,852	170,225	215,592	216,153	222,738	253,572	222,342	260,705	195,190	160,415
Capital expenditures	(59,894)	(31,330)	(42,274)	(233,704)	(100,625)	(127,879)	(92,607)	(202,053)	(163,580)	(146,185)	(79,984)	(128,465)
Free cash flow	75,318	83,446	39,578	(63,479)	114,967	88,274	130,131	51,519	58,762	114,520	115,206	31,950

Non-GAAP Financial Measures

This MD&A includes references to certain financial measures which do not have standardized meanings and may not be comparable to similar measures presented by other issuers. These financial measures include fund flows from operations, a measure of profit or loss in accordance with IFRS 8 "Operating Segments" (please see Segmented Information in the Notes to the Consolidated Financial Statements) and net debt, a measure of capital in accordance with IAS 1 "Presentation of Financial Statements" (please see Capital Disclosures in the Notes to the Consolidated Financial Statements).

In addition, this MD&A includes financial measures which are not specified, defined, or determined under IFRS and are therefore considered non-GAAP financial measures and may not be comparable to similar measures presented by other issuers. These non-GAAP financial measures include:

Acquisitions: The sum of acquisitions from the Consolidated Statements of Cash Flows, Vermilion common shares issued as consideration, the estimated value of contingent consideration, the amount of acquiree's outstanding long-term debt assumed plus or net of acquired working capital deficit or surplus. We believe that including these components provides a useful measure of the economic investment associated with our acquisition activity.

Capital expenditures: The sum of drilling and development and exploration and evaluation from the Consolidated Statements of Cash Flows. We consider capital expenditures to be a useful measure of our investment in our existing asset base. Capital expenditures are also referred to as E&D capital.

Cash dividends per share: Represents cash dividends declared per share and is a useful measure of the dividends a common shareholder was entitled to during the period.

Covenants: The financial covenants on our revolving credit facility contain non-GAAP measures. The definitions for these financial covenants are included in Financial Position Review.

Diluted shares outstanding: The sum of shares outstanding at the period end plus outstanding awards under the VIP, based on current estimates of future performance factors and forfeiture rates.

Free cash flow: Represents fund flows from operations in excess of capital expenditures. We use free cash flow to determine the funding available for investing and financing activities, including payment of dividends, repayment of long-term debt, reallocation to existing business units, and deployment into new ventures. We also assess free cash flow as a percentage of fund flows from operations, which is a measure of the percentage of fund flows from operations that is retained for incremental investing and financing activities.

Fund flows from operations per basic and diluted share: Management assesses fund flows from operations on a per share basis as we believe this provides a measure of our operating performance after taking into account the issuance and potential future issuance of Vermilion common shares. Fund flows from operations per basic share is calculated by dividing fund flows from operations by the basic weighted average shares outstanding as defined under IFRS. Fund flows from operations per diluted share is calculated by dividing fund flows from operations by the sum of basic weighted average shares outstanding and incremental shares issuable under the equity based compensation plans as determined using the treasury stock method.

Net dividends: We define net dividends as dividends declared less proceeds received for the issuance of shares pursuant to the Dividend Reinvestment Plan. Management monitors net dividends and net dividends as a percentage of fund flows from operations to assess our ability to pay dividends.

Operating netback: Sales less royalties, operating expense, transportation costs, PRRT, and realized hedging gains and losses presented on a per unit basis. Management assesses operating netback as a measure of the profitability and efficiency of our field operations. In contrast, fund flows from operations netback also includes general and administration expense, corporate income taxes, and interest. Fund flows from operations netback is used by management to assess the profitability of our business units and Vermilion as a whole.

Payout: We define payout as net dividends plus drilling and development costs, exploration and evaluation costs, and asset retirement obligations settled. Management uses payout and payout as a percentage of fund flows from operations (also referred to as the **payout or sustainability ratio**) to assess the amount of cash distributed back to shareholders and re-invested in the business for maintaining production and organic growth.

Return on capital employed (ROCE): ROCE is a measure that we use to analyze our profitability and the efficiency of our capital allocation process. ROCE is calculated by dividing net earnings before interest and taxes ("EBIT") by average capital employed over the preceding twelve months. Capital employed is calculated as total assets less current liabilities while average capital employed is calculated using the balance sheets at the beginning and end of the twelve-month period.

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

(\$M)	Q4 2020	Q3 2020	Q4 2019	2020	2019
Dividends declared	—	—	107,702	90,067	427,311
Shares issued for the Dividend Reinvestment Plan	—	—	(10,200)	(8,277)	(34,937)
Net dividends	—	—	97,502	81,790	392,374
Drilling and development	52,903	29,762	97,114	352,481	486,677
Exploration and evaluation	6,991	1,568	3,511	14,721	36,487
Asset retirement obligations settled	7,271	2,305	7,352	14,278	19,442
Payout	67,165	33,635	205,479	463,270	934,980
% of fund flows from operations	50 %	29 %	95 %	92 %	103 %

('000s of shares)	Q4 2020	Q3 2020	Q4 2019
Shares outstanding	158,724	158,308	156,290
Potential shares issuable pursuant to the VIP	6,672	5,492	3,622
Diluted shares outstanding	165,396	163,800	159,912

The following tables reconciles the calculation of return on capital employed:

(\$M)	Twelve Months Ended	
	Dec 31, 2020	Dec 31, 2019
Net (loss) earnings	(1,517,427)	32,799
Taxes	(359,972)	108,326
Interest expense	75,077	81,377
EBIT	(1,802,322)	222,502
Average capital employed	4,562,960	5,578,691
Return on capital employed	(40)%	4 %

Management's Report to Shareholders

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Vermilion Energy Inc. are the responsibility of management and have been approved by the Board of Directors of Vermilion Energy Inc. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes to the consolidated financial statements and are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Where necessary, management has made informed judgments and estimates of transactions that were not yet completed at the balance sheet date. Financial information throughout the Annual Report is consistent with the consolidated financial statements.

Management ensures the integrity of the consolidated financial statements by maintaining high-quality systems of internal control. Procedures and policies are designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded, and that the financial records are reliable for preparation of the consolidated financial statements. Deloitte LLP, Vermilion's Independent Registered Public Accounting Firm, have conducted an audit of the consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and have provided their report.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board carries out this responsibility principally through the Audit Committee, which is appointed by the Board and is comprised entirely of independent Directors. The Committee meets periodically with management and Deloitte LLP to satisfy itself that each party is properly discharging its responsibilities and to review the consolidated financial statements, Management's Discussion and Analysis and the Report of the Independent Registered Public Accounting Firm before they are presented to the Board of Directors.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Management, under the supervision and with the participation of the principal executive officer and principle financial officer, conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the criteria established in *"Internal Control - Integrated Framework (2013)"* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has assessed the effectiveness of Vermilion's internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the US Securities Exchange Act of 1934 and as defined in Canada by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Management concluded that Vermilion's internal control over financial reporting was effective as of December 31, 2020.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation.

The effectiveness of Vermilion's internal control over financial reporting as of December 31, 2020 has been audited by Deloitte LLP, the Company's Independent Registered Public Accounting Firm, who also audited the Company's consolidated financial statements for the year ended December 31, 2020.

("Curtis Hicks")

Curtis Hicks
President
March 5, 2021

("Lars Glemser")

Lars Glemser
Vice President & Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Vermilion Energy Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Vermilion Energy Inc. and subsidiaries (the “Company”) as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated March 5, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report to Shareholders. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Canada
March 5, 2021

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Vermilion Energy Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Vermilion Energy Inc. (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of net (loss) earnings and comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in shareholders' equity, for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and its financial performance and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 5, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relates.

Impairment of Capital Assets - Refer to Notes 2 and 4 to the Financial Statements

Critical Audit Matter Description

The Company reviews all Cash Generating Units ("CGUs") for indicators of potential impairment at each reporting date. As a result of declining commodity price forecasts and a market capitalization deficiency during the year, indicators of impairment were identified for all CGUs. An impairment loss is recognized if the carrying amount of the CGU exceeds its recoverable amount. The recoverable amount of a CGU is estimated based on the higher of its fair value less cost of disposal and its value-in-use, using future after-tax cash flows of the underlying proved and probable oil and natural gas reserves. The Company engages an independent reservoir engineer to estimate oil and natural gas reserves using estimates, assumptions and engineering data. The development of the Company's reserves and the related future after-tax cash flows used to evaluate the impairment requires management to make significant estimates and assumptions related to future oil and natural gas prices, discount rates, reserves, and future operating and development costs. Impairment charges totaling \$1.68 billion were recorded for the year ended December 31, 2020.

Given the significant judgments made by management related to future oil and natural gas prices, discount rates, reserves, and future operating and development costs, these estimates and assumptions are subject to a high degree of estimation uncertainty. Auditing these estimates and assumptions are subject to a high degree of auditor judgment in applying audit procedures and in evaluation of the results of those procedures. This resulted in an increased extent of audit effort, including the involvement of fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to future oil and natural gas prices, discount rates, reserves, and future operating and development costs used to determine the recoverable amount of all CGUs included the following, among others:

- Evaluated the effectiveness of the relevant controls, including those over the determination of the future oil and natural gas prices, discount rates, reserves, and future operating and development costs.
- Evaluated the Company's independent reservoir engineer by:
 - Examining reports and assessing their scope of work and findings.
 - Assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience.
- Evaluated the reasonableness of reserves by testing the source financial information underlying the reserves and comparing the reserve volumes to historical production volumes.
- Evaluated the reasonableness of future operating and development costs by testing the source financial information underlying the estimate, comparing future operating and development costs to historical results, and evaluating whether they are consistent with evidence obtained in other areas of the audit.
- Evaluated the reasonableness of forecast oil and natural gas prices used by comparing the assumptions to historical data and available market trends.
- With the assistance of fair value specialists,
 - Evaluated the future oil and natural gas prices by independently developing a reasonable range of forecasts based on reputable third-party forecasts and market data and comparing those to the future prices selected by management.
 - Evaluated the reasonableness of the discount rates by testing the source information underlying the determination of the discount rates and developing a range of independent estimates and comparing those to the discount rates selected by management.

Deferred Taxes - Refer to Notes 2 and 9 to the Financial Statements

Critical Audit Matter Description

The Company recognizes deferred income taxes for differences between the financial statement and tax basis of assets and liabilities at substantively enacted statutory tax rates in effect for the years in which the differences are expected to reverse.

Deferred income tax assets are reduced to the amounts expected to be realized based on forecasts of future tax profits, specifically forecasts of future revenue (commodity price forecasts and forecasted reserves). The Company recorded a deferred income tax asset for Canada primarily arising from past taxable losses in this jurisdiction.

To determine whether it is probable that the deferred income tax assets in Canada will be realized, management makes assumptions related to the forecasts of future taxable income, specifically forecasts of future revenue (commodity price forecasts and forecasted reserves). As such, auditing the probability of the deferred income tax assets being realized and management's commodity price forecasts and forecasted reserves involved a high degree of auditor judgement as the estimations made by management contain significant measurement uncertainty. This resulted in an increased extent of audit effort, which included the need to involve an income tax specialist.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to assessing the probability of the deferred income tax assets being realized and management's forecasts of taxable income, specifically forecasts of future revenue (commodity price forecasts and forecasted reserves) to evaluate the deferred income tax assets in Canada included the following, among others:

- Evaluated the effectiveness of relevant controls, including those over the determination of the forecasts of future revenue, specifically commodity price forecasts and forecasted reserves in Canada.
- Evaluated management's ability to accurately forecast future revenue by comparing management's assumptions to historical data and available market trends.
- Evaluated the reasonableness of management's forecasts of future revenue by:
 - Comparing the forecasts prepared by management's expert to third party forecasts and,
 - Evaluating whether management's estimates of commodity price forecasts and estimated reserves were consistent with the requirements of IAS 12 relating to the probability of forecasted future revenue and the length of the forecast period.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Canada
March 5, 2021

We have served as the Company's auditor since 2000.

Consolidated Financial Statements

Consolidated Balance Sheet

thousands of Canadian dollars

	Note	December 31, 2020	December 31, 2019
Assets			
Current			
Cash and cash equivalents	17	6,904	29,028
Accounts receivable	17	196,077	211,409
Crude oil inventory	17	13,402	29,389
Derivative instruments	7	16,924	55,645
Prepaid expenses	17	27,686	22,210
Total current assets		260,993	347,681
Derivative instruments	7	2,451	20,127
Deferred taxes	4, 9	484,497	196,543
Exploration and evaluation assets	5	254,094	286,149
Capital assets	4	3,107,104	5,015,620
Total assets		4,109,139	5,866,120
Liabilities			
Current			
Accounts payable and accrued liabilities	17	297,670	312,442
Dividends payable	11	—	35,947
Derivative instruments	7	130,919	62,405
Income taxes payable	17	4,539	5,416
Total current liabilities		433,128	416,210
Derivative instruments	7	8,228	24,358
Long-term debt	10	1,933,848	1,924,665
Lease obligations	8	76,524	93,072
Asset retirement obligations	6	467,737	618,201
Deferred taxes	9	264,272	336,309
Total liabilities		3,183,737	3,412,815
Shareholders' Equity			
Shareholders' capital	11	4,181,160	4,119,031
Contributed surplus		66,250	75,735
Accumulated other comprehensive income		77,986	49,578
Deficit		(3,399,994)	(1,791,039)
Total shareholders' equity		925,402	2,453,305
Total liabilities and shareholders' equity		4,109,139	5,866,120

Approved by the Board

(Signed "Robert Michaleski")

Robert Michaleski, Director

(Signed "Lorenzo Donadeo")

Lorenzo Donadeo, Director

Consolidated Statements of Net (Loss) Earnings and Comprehensive Loss

thousands of Canadian dollars, except share and per share amounts

	Note	Year Ended	
		Dec 31, 2020	Dec 31, 2019
Revenue			
Petroleum and natural gas sales		1,119,545	1,689,863
Royalties		(106,554)	(163,666)
Sales of purchased commodities		127,853	221,274
Petroleum and natural gas revenue		1,140,844	1,747,471
Expenses			
Purchased commodities		127,853	221,274
Operating	17	417,251	440,078
Transportation		67,711	72,446
Equity based compensation	13	42,906	64,233
Gain on derivative instruments	7	(8,138)	(26,792)
Interest expense		75,077	81,377
General and administration	17	60,840	58,976
Foreign exchange gain		(60,122)	(52,271)
Other income		(3,258)	(6,875)
Accretion	6	35,318	32,667
Depletion and depreciation	4, 5	580,461	675,177
Impairment	4	1,682,344	46,056
		3,018,243	1,606,346
(Loss) earnings before income taxes		(1,877,399)	141,125
Income tax (recovery) expense			
	4, 9		
Deferred		(374,313)	56,096
Current		14,341	52,230
		(359,972)	108,326
Net (loss) earnings		(1,517,427)	32,799
Other comprehensive loss			
Currency translation adjustments		65,160	(81,042)
Unrealized (loss) gain on hedges	7, 10	(36,752)	12,438
Other comprehensive loss		(1,489,019)	(35,805)
Net (loss) earnings per share	14		
Basic		(9.61)	0.21
Diluted		(9.61)	0.21
Weighted average shares outstanding ('000s)			
	14		
Basic		157,908	154,736
Diluted		157,908	156,095

Consolidated Statements of Cash Flows

thousands of Canadian dollars

	Note	Year Ended	
		Dec 31, 2020	Dec 31, 2019
Operating			
Net (loss) earnings		(1,517,427)	32,799
Adjustments:			
Accretion	6	35,318	32,667
Depletion and depreciation	4, 5	580,461	675,177
Impairment	4	1,682,344	46,056
Unrealized loss on derivative instruments	7	100,955	57,427
Equity based compensation	13	42,906	64,233
Unrealized foreign exchange gain		(49,012)	(57,225)
Unrealized other expense		833	825
Deferred taxes	9	(374,313)	56,096
Asset retirement obligations settled	6	(14,278)	(19,442)
Changes in non-cash operating working capital	17	12,365	(65,148)
Cash flows from operating activities		500,152	823,465
Investing			
Drilling and development	4	(352,481)	(486,677)
Exploration and evaluation	5	(14,721)	(36,487)
Acquisitions	4, 5	(25,810)	(38,472)
Changes in non-cash investing working capital	17	(8,422)	(57,072)
Cash flows used in investing activities		(401,434)	(618,708)
Financing			
Borrowings on the revolving credit facility	10	22,183	214,895
Payments on lease obligations	8	(25,048)	(26,354)
Cash dividends	11	(117,737)	(391,549)
Cash flows used in financing activities		(120,602)	(203,008)
Foreign exchange (loss) gain on cash held in foreign currencies		(240)	470
Net change in cash and cash equivalents		(22,124)	2,219
Cash and cash equivalents, beginning of year		29,028	26,809
Cash and cash equivalents, end of year	17	6,904	29,028
Supplementary information for cash flows from operating activities			
Interest paid		74,125	73,783
Income taxes paid		15,218	84,224

Consolidated Statements of Changes in Shareholders' Equity

thousands of Canadian dollars

	Note	Year Ended	
		Dec 31, 2020	Dec 31, 2019
Shareholders' capital	11		
Balance, beginning of year		4,119,031	4,008,828
Shares issued for the Dividend Reinvestment Plan		8,277	34,937
Vesting of equity based awards		49,188	51,108
Equity based compensation		3,203	15,868
Share-settled dividends on vested equity based awards		1,461	8,290
Balance, end of year		4,181,160	4,119,031
Contributed surplus	11		
Balance, beginning of year		75,735	78,478
Equity based compensation		39,703	48,365
Vesting of equity based awards		(49,188)	(51,108)
Balance, end of year		66,250	75,735
Accumulated other comprehensive income			
Balance, beginning of year		49,578	118,182
Currency translation adjustments		65,160	(81,042)
Hedge accounting reserve		(36,752)	12,438
Balance, end of year		77,986	49,578
Deficit			
Balance, beginning of year		(1,791,039)	(1,388,237)
Net (loss) earnings		(1,517,427)	32,799
Dividends declared	11	(90,067)	(427,311)
Share-settled dividends on vested equity based awards		(1,461)	(8,290)
Balance, end of year		(3,399,994)	(1,791,039)
Total shareholders' equity		925,402	2,453,305

Description of equity reserves

Shareholders' capital

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

Contributed surplus

Represents the recognized value of unvested equity based awards that will be settled in shares. Once vested, the value of the awards are transferred to shareholders' capital.

Accumulated other comprehensive income

Represents currency translation adjustments and hedge accounting reserve.

Currency translation adjustments result from translating the balance sheets of subsidiaries with a foreign functional currency to Canadian dollars at period-end rates. These amounts may be reclassified to net earnings if there is a disposal or partial disposal of a subsidiary.

The hedge accounting reserve represents the effective portion of the change in fair value related to cash flow and net investment hedges recognized in other comprehensive income, net of tax and reclassified to the consolidated statement of net earnings in the same period in which the transaction associated with the hedged item occurs. For the year ended December 31, 2020, accumulated losses of \$29.8 million and \$6.9 million were recognized on the cash flow hedges and net investment hedges, respectively, and will be recognized in net earnings through 2025 when the senior unsecured notes mature.

Deficit

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

Notes to the Consolidated Financial Statements for the year ended December 31, 2020 and 2019

tabular amounts in thousands of Canadian dollars, except share and per share amounts

1. Basis of presentation

Vermilion Energy Inc. and its subsidiaries (the "Company" or "Vermilion") are engaged in the business of petroleum and natural gas exploration, development, acquisition, and production.

Vermilion was incorporated in Canada and the Company's registered office and principal place of business is located at 3500, 520, 3rd Avenue SW, Calgary, Alberta, Canada.

These consolidated financial statements were approved and authorized for issuance by Vermilion's Board of Directors on March 5, 2021.

2. Significant accounting policies

Accounting framework

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Principles of consolidation

The consolidated financial statements include the accounts of Vermilion Energy Inc. and its subsidiaries. Vermilion's subsidiaries include entities in each of the jurisdictions that Vermilion operates as described in Note 3 (Segmented information) including: Canada, France, Netherlands, Germany, Ireland, Australia, the United States, and Central and Eastern Europe (Hungary, Slovakia, and Croatia). Vermilion Energy Inc. directly or indirectly through holding companies owns all of the voting securities of each material subsidiary. Transactions between Vermilion Energy Inc. and its subsidiaries have been eliminated.

Vermilion accounts for joint operations by recognizing the Company's share of assets, liabilities, income, and expenses.

Exploration and evaluation assets

Vermilion classifies costs as exploration and evaluation ("E&E") assets when they relate to exploring and evaluating an area for which the Company has the license or right to explore and extract resources. E&E costs may include: geological and geophysical costs; land and license acquisition costs; and costs for the drilling, completion, and testing of exploration wells.

E&E costs are reclassified to capital assets if the technical feasibility and commercial viability of the area can be determined. E&E assets are assessed for impairment prior to any reclassification. The technical feasibility and commercial viability of extracting the reserves is considered to be determinable when proved and probable reserves are identified.

Costs incurred prior to the acquisition of the legal rights to explore an area are expensed as incurred. If reserves are not found within the license area or the area is abandoned, the related E&E costs are depreciated over a period not greater than five years. If an exploration license expires prior to the commencement of exploration activities, the cost of the exploration license is written off through depreciation in the year of expiration.

Capital assets

Vermilion recognizes capital assets at cost less accumulated depletion, depreciation, and impairment losses. Costs include directly attributable costs incurred for the drilling, completion, and tie-in of wells and the construction of production and processing facilities.

When components of capital assets are replaced, disposed of, or no longer in use, they are derecognized. Gains and losses on disposal of capital assets are determined by comparing the proceeds of disposal compared to the carrying amount.

Depletion and depreciation

Capital assets are grouped into depletion units, which are groups of assets within a specific production area that have similar economic lives. Depletion units represent the lowest level of disaggregation for which costs are accumulated for the purposes of calculating depletion and depreciation.

The net carrying value of each depletion unit is depleted using the unit of production method by reference to the ratio of production in the period to the total proved and probable reserves, taking into account the future development costs necessary to bring the applicable reserves into production.

For the purposes of the depletion calculations, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content based on a conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent.

Impairment of capital assets and exploration and evaluation assets

Depletion units are aggregated into cash generating units ("CGUs") for impairment testing. CGUs are the lowest level for which there are identifiable cash inflows that are largely independent of cash inflows of other groups of assets. CGUs are reviewed for indicators of potential impairment at each reporting date.

E&E assets are tested for impairment when reclassified to capital assets or when indicators of potential impairment are identified. E&E assets are reviewed for indicators of potential impairment at each reporting date. If indicators of potential impairment are identified, E&E assets are tested for impairment as part of the CGU attributable to the jurisdiction in which the exploration area resides.

If an indicator of potential impairment exists, the CGU's carrying value is compared to its recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value-in-use. If the carrying amount of a CGU exceeds its recoverable amount, an impairment loss is recognized to reduce the carrying value of the CGU to its recoverable amount.

If an impairment loss has been recognized in a prior period, an assessment is performed at each reporting date to determine if there are indicators that the circumstances which led to the impairment loss have reversed. If the change in circumstances results in the recoverable amount being higher than the carrying value after the impairment loss, then the impairment loss (net of depletion that would otherwise have been recorded) is reversed.

Lease obligations and right-of-use assets

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the lease commencement date, a lease obligation is recognized at the present value of future lease payments, typically using the applicable incremental borrowing rate. A corresponding right-of-use asset is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs. Vermilion does not recognize leases for short-term leases with a lease term of 12 months or less, or leases for low-value assets.

Payments are applied against the lease obligation and interest expense is recognized on the lease obligations using the effective interest rate method. Depreciation is recognized on the right-of-use asset over the lease term.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit with financial institutions and guaranteed investment certificates.

Crude oil inventory

Crude oil inventory is valued at the lower of cost or net realizable value. The cost of crude oil inventory produced includes related operating expense, royalties, and depletion determined on a weighted-average basis.

Asset retirement obligations

Vermilion recognizes a provision for asset retirement obligations when an event occurs giving rise to an obligation of uncertain timing or amount. Asset retirement obligations are recognized on the consolidated balance sheet as a long-term liability with a corresponding increase to E&E or capital assets.

Asset retirement obligations reflect the present value of estimated future settlement costs. The discount rate used to calculate the present value is specific to the jurisdiction the obligation relates to and is reflective of current market assessment of the time value of money and risks specific to the liabilities that have not been reflected in the cash flow estimates.

Asset retirement obligations are remeasured at each reporting period to reflect changes in market rates and estimated future settlement costs. Asset retirement obligations are increased each reporting period to reflect the passage of time with a corresponding charge to accretion expense.

Revenue recognition

Revenue associated with the sale of crude oil and condensate, natural gas, and natural gas liquids is measured based on the consideration specified in contracts with customers.

Revenue from contracts with customers is recognized when or as Vermilion satisfies a performance obligation by transferring control of crude oil and condensate, natural gas, or natural gas liquids to a customer at contractually specified transfer points. This transfer coincides with title passing to the customer and the customer taking physical possession of the commodity. Vermilion principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant.

Vermilion invoices customers for delivered products monthly and payment occurs shortly thereafter. Vermilion does not have any contracts where the period between the transfer of control of the commodity to the customer and payment by the customer exceeds one year. As a result, Vermilion does not adjust its revenue transactions to reflect significant financing components.

Financial instruments

On initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods depends on the classification of the financial instrument as described below:

- Fair value through profit or loss ("FVTPL"): Financial instruments under this classification include cash and cash equivalents and derivative assets and liabilities. Transaction costs under this classification are expensed as incurred.
- Fair value through other comprehensive income ("FVTOCI"): Financial instruments under this classification include derivative assets and liabilities where hedge accounting is applied. Transaction costs under this classification are expensed as incurred.
- Amortized cost: Financial instruments under this classification include accounts receivable, accounts payable and accrued liabilities, dividends payable, lease obligations, and long-term debt. Transaction costs under this classification are included in the measurement of the financial instrument.

Accounts receivable are measured net of a loss allowance equal to the lifetime expected credit loss.

Hedge accounting

Hedge accounting is applied to financial instruments designated as hedging instruments in qualifying hedging relationships. Qualifying hedge relationships may include cash flow hedges, fair value hedges, and hedges of net investments in foreign operations. The purpose of hedge accounting is to represent the effect of Vermilion's risk management activities to manage exposures arising from specific risks that affect net earnings such as foreign currency risk.

In order to apply hedge accounting, the eligible hedging instrument must be highly effective in offsetting the exposure to changes in the eligible hedged item. This effectiveness is assessed at inception and at the end of each reporting period thereafter. At inception, formal designation and documentation of the hedging relationship, risk management objective and strategy is required for undertaking the hedge.

For cash flow and net investment hedges, gains and losses on the hedging instrument are recognized in the consolidated statement of earnings in the same period in which the transaction associated with the hedged item occurs. Where the hedging instrument is a derivative instrument, a derivative asset or liability is recognized on the balance sheet at fair value (included in "Derivative instruments") with the effective portion of the gain or loss recorded to other comprehensive income. Any gain or loss associated with the ineffective portion of the hedging relationship is recognized in the consolidated statement of net earnings as other income or expense.

If a hedging relationship no longer qualifies for hedge accounting, any gain or loss resulting from the discontinuation of hedge accounting is deferred in other comprehensive income until the forecasted transaction date. If the forecasted transaction is no longer expected to occur, any gain or loss resulting from the discontinuation of hedge accounting is immediately recognized in the consolidated statement of net earnings.

Equity based compensation

Equity based compensation expense results from equity-settled awards issued under Vermilion's long-term share-based compensation plans as well as the grant date fair value of Vermilion common shares issued under the Company's bonus and employee share savings plans.

Vermilion's long-term share-based compensation plans consist of the Vermilion Incentive Plan ("VIP") and the Deferred Share Unit Plan ("DSU"). Equity-settled awards issued under the VIP vest over a period of one to three years and awards issued under the DSU vest immediately upon granting.

Equity based compensation expense for equity-settled plans is recognized over the vesting period with a corresponding adjustment to contributed surplus. The expense recognized is based on the grant date fair value of the awards, an estimate of the performance factor that will be achieved (if applicable), and an estimate of forfeiture rates based on historical vesting data. Dividends notionally accrue to the VIP and are excluded in the determination of grant date fair values. When the awards are converted to Vermilion common shares, the amount recognized in contributed surplus is reclassified to shareholders' capital.

The grant date fair value of awards or Vermilion common shares issued is determined as the closing price of Vermilion's common shares on the Toronto Stock Exchange on the grant date.

Per share amounts

Basic net earnings per share is calculated by dividing net earnings by the weighted-average number of shares outstanding during the period.

Diluted net earnings per share is calculated by dividing net earnings by the diluted weighted-average number of shares outstanding during the period. The diluted weighted-average number of shares outstanding is the sum of the basic weighted-average number of shares outstanding and (to the extent inclusion reduces diluted net earnings per share) the number of shares issuable for equity-settled awards determined using the treasury stock method. The treasury stock method assumes that the unrecognized equity based compensation expense are deemed proceeds used to repurchase Vermilion common shares at the average market price during the period.

Foreign currency translation

Vermilion Energy Inc.'s functional and presentation currency is the Canadian dollar. Vermilion has subsidiaries that transact and operate in countries other than Canada and have functional currencies other than the Canadian dollar.

Foreign currency translation includes the translation of foreign currency transactions and the translation of foreign operations.

Foreign currency transaction translation occurs when translating transactions and balances in foreign currencies to the applicable functional currency of Vermilion Energy Inc. and its subsidiaries. Gains and losses from foreign currency transactions are recorded as foreign exchange gains or losses in the statement of net earnings. Foreign currency transaction translation occurs as follows:

- Income and expenses are translated at the prevailing rates on the date of the transaction.
- Non-monetary assets or liabilities are carried at the prevailing rates on the date of the transaction.
- Monetary items, including intercompany loans that are not deemed to represent net investments in a foreign subsidiary, are translated at the prevailing rates at the balance sheet date.

Foreign operation translation occurs when translating the financial statements of non-Canadian functional currency subsidiaries to the Canadian dollar and when translating intercompany loans that are deemed to represent net investments in a foreign subsidiary. Gains and losses from foreign operation translations are recorded as currency translation adjustments in the statement of comprehensive earnings. Foreign operation translation occurs as follows:

- Income and expenses are translated at the average exchange rates for the period.
- Assets and liabilities are translated at the prevailing rates on the balance sheet date.

Income taxes

Deferred tax assets and liabilities are calculated using the balance sheet method. Deferred tax assets and liabilities are recognized for the estimated effect of any temporary differences between the amounts recognized on Vermilion's consolidated balance sheet and the respective tax basis. This calculation uses enacted or substantively enacted tax rates that are expected to be in effect when the temporary differences are expected to reverse. The effect of a change in tax rates on deferred taxes is recognized in the period the related legislation is substantively enacted.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realized.

Business combinations

Acquisitions of corporations or groups of assets are accounted for as business combinations using the acquisition method if the acquired assets constitute a business. Under the acquisition method, assets acquired and liabilities assumed in a business combination (with the exception of deferred tax assets and liabilities) are measured at their fair values. Deferred tax assets or liabilities arising from the assets acquired and liabilities assumed are measured in accordance with the policies described in "Income taxes" above.

If applicable, the excess or deficiency of the fair value of net assets acquired compared to consideration paid is recognized as a gain on business combination or as goodwill on the consolidated balance sheet. Acquisition-related costs incurred to effect a business combination are expensed in the period incurred.

As part of the assessment to determine if the acquisition constitutes a business, Vermilion may elect to apply the concentration test on a transaction by transaction basis. The test is met if substantially all of the fair value related to the gross assets acquired is concentrated in a single identifiable asset (or group of similar assets) resulting in the acquisition not being deemed a business and recorded as an asset acquisition.

Segmented information

Vermilion has a decentralized business unit structure designed to manage assets in each country the Company operates. Each of Vermilion's operating segments derives its revenues solely from the production and sale of petroleum and natural gas.

Vermilion's Corporate segment aggregates costs incurred at the Company's Corporate head office located in Calgary, Alberta, Canada as well as costs incurred relating to Vermilion's exploration and production activities in Hungary, Slovakia, and Croatia (Central and Eastern Europe). These operating segments have similar economic characteristics as they do not currently generate material revenue.

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 profitability of each operating segment and, correspondingly, the ability of each operating segment to fund its share of dividends, asset retirement obligations, and capital investments.

Management judgments and estimation uncertainty

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions are described below.

The determination of whether indicators of impairment or impairment reversals:

- Determining whether there are indicators of impairment or impairment reversals are based on management's assessments of the changes in estimates for future commodity prices, costs, discount rates, or reserves. Changes in these estimates and assumptions can directly impact the calculated fair value of capital assets and therefore could be indicators of impairment or impairment reversals. In addition, change in the Vermilion's market capitalization relative to its book value could be an indicator of impairment.

The measurement of the fair value of capital assets acquired in a business combination and the determination of the recoverable amount of cash generating units ("CGU"):

- Calculating the fair value of capital assets acquired in a business combination and the recoverable amount of CGUs (in the assessment of impairments or reversals of previous impairments if indicators of impairment or impairment reversal are identified) are based on estimated future commodity prices, discount rates and estimated reserves. Reserve estimates are based on: engineering data, estimated future commodity prices, expected future rates of production, and assumptions regarding the timing and amount of future expenditures. Changes in these estimates and assumptions can directly impact the calculated fair value of capital assets acquired (and thus the resulting goodwill or gain on business combination) and the recoverable amount of a CGU (and thus the resulting impairment loss or recovery).
- In addition, the recoverable amount of a CGU is impacted by the composition of CGUs, which are subject to management's judgment of the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets. The factors used by Vermilion to determine CGUs vary by jurisdiction due to their unique operating and geographic conditions. In general, Vermilion will assess the following factors: geographic proximity of the assets within a group to one another, geographic proximity of the group of assets to other groups of assets, homogeneity of the production from the group of assets and the sharing of infrastructure used to process and/or transport production. Changes in these judgments can directly impact the calculated recoverable amount of a CGU (and thus the resulting impairment loss or recovery).

The measurement of the carrying value of asset retirement obligations on the balance sheet, including the fair value and subsequent carrying value of asset retirement obligations assumed in a business combination:

- Asset retirement obligations are based on judgments regarding regulatory requirements, estimates of future costs, assumptions on the expected timing of expenditures, and estimates of the underlying risk inherent to the obligation. The carrying balance of asset retirement obligations and accretion expense may differ due to changes in: laws and regulations, technology, the expected timing of expenditures, and market conditions affecting the discount rate applied.

The recognition and measurement of deferred tax assets and liabilities:

- Tax interpretations, regulations, and legislation in the various jurisdictions in which Vermilion and its subsidiaries operate are subject to change and interpretation. Changes in laws and interpretations can affect the timing of the reversal of temporary tax differences, the tax rates in effect when such differences reverse and Vermilion's ability to use tax losses and other tax pools in the future. The Company's income tax filings are subject to audit by taxation authorities in numerous jurisdictions and the results of such audits may increase or decrease the tax liability. The determination of tax amounts recognized in the consolidated financial statements are based on management's assessment of the tax positions, which includes consideration of their technical merits, communications with tax authorities and management's view of the most likely outcome.
- The extent to which deferred tax assets are recognized are based on estimates of future profitability. These estimates are based on estimated future commodity prices and estimates of reserves. Judgments, estimates, and assumptions inherent in reserve estimates are described above.

The measurement of lease obligations and corresponding right-of-use assets:

- The measurement of lease obligations are subject to management's judgments of the applicable incremental borrowing rate and the expected lease term. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depletion and depreciation expense, may differ due to changes in the market conditions and expected lease terms. Applicable incremental borrowing rates are based on judgments of the economic environment, term, currency, and the underlying risk inherent to the asset. Lease terms are based on assumptions regarding cancellation and extension terms that allow for operational flexibility based on future market conditions.

3. Segmented information

Substantially all sales in the France, Netherlands, and Ireland operating segments for the years ended December 31, 2020 and 2019 were to one customer in each respective segment. In 2020 and 2019, France contributed more than 10% of Vermilion's consolidated revenues.

(\$M)	Year Ended December 31, 2020								Total
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	
Total assets	1,805,464	328,902	703,567	130,063	198,357	257,990	105,898	578,898	4,109,139
Drilling and development	199,141	66,120	42,145	10,331	13,005	1,823	24,520	(4,604)	352,481
Exploration and evaluation	—	—	183	(226)	2,814	—	—	11,950	14,721
Crude oil and condensate sales	418,610	55,099	182,292	1,502	17,143	13	141,452	8	816,119
NGL sales	36,204	6,513	—	—	—	—	—	—	42,717
Natural gas sales	114,377	4,834	—	64,073	17,067	58,433	—	1,925	260,709
Sales of purchased commodities	—	—	—	—	—	—	—	127,853	127,853
Royalties	(54,961)	(17,446)	(32,069)	(444)	(990)	—	—	(644)	(106,554)
Revenue from external customers	514,230	49,000	150,223	65,131	33,220	58,446	141,452	129,142	1,140,844
Purchased commodities	—	—	—	—	—	—	—	(127,853)	(127,853)
Transportation	(41,494)	(1,349)	(14,604)	—	(5,839)	(4,425)	—	—	(67,711)
Operating	(218,596)	(18,108)	(57,128)	(32,410)	(20,732)	(15,232)	(54,581)	(464)	(417,251)
General and administration	(25,462)	(7,420)	(13,108)	(1,220)	(6,532)	(594)	(3,841)	(2,663)	(60,840)
PRRT	—	—	—	—	—	—	(20,151)	—	(20,151)
Corporate income taxes	—	—	(141)	3,774	—	—	2,106	71	5,810
Interest expense	—	—	—	—	—	—	—	(75,077)	(75,077)
Realized gain on derivative instruments	—	—	—	—	—	—	—	109,093	109,093
Realized foreign exchange gain	—	—	—	—	—	—	—	11,110	11,110
Realized other income	—	—	—	—	—	—	—	4,091	4,091
Fund flows from operations	228,678	22,123	65,242	35,275	117	38,195	64,985	47,450	502,065

(\$M)	Year Ended December 31, 2019								Total
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	
Total assets	3,088,947	421,609	841,875	226,834	261,712	470,316	233,581	321,246	5,866,120
Drilling and development	293,744	57,196	74,579	19,866	10,806	1,372	30,550	(1,436)	486,677
Exploration and evaluation	—	—	62	3,739	10,878	—	—	21,808	36,487
Crude oil and condensate sales	699,290	63,449	326,578	2,411	25,783	27	184,490	—	1,302,028
NGL sales	33,159	6,499	—	—	—	—	—	—	39,658
Natural gas sales	95,621	5,416	121	110,446	31,529	104,247	—	797	348,177
Sales of purchased commodities	—	—	—	—	—	—	—	221,274	221,274
Royalties	(94,079)	(18,706)	(43,895)	(1,469)	(5,264)	—	—	(253)	(163,666)
Revenue from external customers	733,991	56,658	282,804	111,388	52,048	104,274	184,490	221,818	1,747,471
Purchased commodities	—	—	—	—	—	—	—	(221,274)	(221,274)
Transportation	(41,261)	—	(21,609)	—	(5,117)	(4,459)	—	—	(72,446)
Operating	(242,790)	(16,370)	(61,281)	(32,125)	(24,970)	(12,431)	(49,810)	(301)	(440,078)
General and administration	(23,341)	(7,566)	(15,406)	(2,659)	(8,452)	(2,491)	(4,940)	5,879	(58,976)
PRRT	—	—	—	—	—	—	(25,947)	—	(25,947)
Corporate income taxes	—	—	(21,431)	3,961	—	—	(8,407)	(406)	(26,283)
Interest expense	—	—	—	—	—	—	—	(81,377)	(81,377)
Realized gain on derivative instruments	—	—	—	—	—	—	—	84,219	84,219
Realized foreign exchange loss	—	—	—	—	—	—	—	(4,954)	(4,954)
Realized other income	—	—	—	—	—	—	—	7,700	7,700
Fund flows from operations	426,599	32,722	163,077	80,565	13,509	84,893	95,386	11,304	908,055

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

	Year Ended	
	Dec 31, 2020	Dec 31, 2019
Fund flows from operations	502,065	908,055
Accretion	(35,318)	(32,667)
Depletion and depreciation	(580,461)	(675,177)
Impairment	(1,682,344)	(46,056)
Unrealized loss on derivative instruments	(100,955)	(57,427)
Equity based compensation	(42,906)	(64,233)
Unrealized foreign exchange gain	49,012	57,225
Unrealized other expense	(833)	(825)
Deferred tax	374,313	(56,096)
Net (loss) earnings	(1,517,427)	32,799

4. Capital assets

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

	2020	2019
Balance at January 1	5,015,620	5,316,873
Acquisitions	24,430	38,472
Additions	352,481	486,677
Increase in right-of-use assets	5,245	12,348
Transfers from exploration and evaluation assets	—	27,918
Impairment	(1,682,344)	(46,056)
Depletion and depreciation	(517,734)	(657,863)
Changes in asset retirement obligations	(200,454)	(10,354)
Foreign exchange	109,860	(152,395)
Balance at December 31	3,107,104	5,015,620
Cost	9,863,537	9,604,933
Accumulated depletion, depreciation, and impairment	(6,756,433)	(4,589,313)
Carrying amount at December 31	3,107,104	5,015,620

Right-of-use assets

The following table discloses the carrying balance and depreciation charge relating to right-of-use assets by class of underlying asset as at and for the year ended December 31, 2020:

(\$M)	As at Dec 31, 2020		As at Dec 31, 2019	
	Depreciation	Balance	Depreciation	Balance
Office space	9,835	49,134	9,745	53,777
Gas processing facilities	7,109	27,593	7,089	34,701
Oil storage facilities	2,738	15,231	2,633	16,803
Vehicles and equipment	3,608	8,035	3,209	10,327
Total	23,290	99,993	22,676	115,608

Q4 2020 impairment

In the fourth quarter of 2020, indicators of impairment were present in our France CGUs due to a decrease in estimated reserves as a result of economic revisions. As a result of the indicators of impairment, the Company performed impairment tests on its four France CGUs and the recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 9.5%. Based on the results of the impairment tests completed, recoverable amounts were determined to be greater than the carrying values of the CGUs tested and no impairment charges were recorded.

The following benchmark price forecasts were used to calculate the recoverable amounts:

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030 ⁽²⁾
Brent Crude (\$ US/bbl) ⁽¹⁾	50.75	55.00	58.50	61.79	62.95	64.13	65.33	66.56	67.81	69.17
Exchange rate (CAD/USD)	0.78	0.77	0.76	0.76	0.76	0.76	0.76	0.76	0.76	0.76

(1) The forecast benchmark commodity prices listed are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations.

(2) In 2031 and beyond, commodity price forecasts are inflated at a rate of 2.0% per annum. In 2030 and beyond there is no escalation of exchange rates.

The following are the results of impairment tests completed and sensitivity impacts which would increase impairment charges taken:

Operating Segment	CGU	Impairment	1% increase in discount rate	5% decrease in pricing
France	Aquitaine Basin	—	—	12,556
France	Neocomian	—	5,582	12,241
Total		—	5,582	24,797

In the fourth quarter of 2020, no indicators of impairment reversal were identified.

Q3 2020 impairment

In the third quarter of 2020, indicators of impairment were present due to a decline in the Company's market capitalization. As a result of the indicators of impairment, the Company performed impairment tests across all CGUs. The recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 11.5%. Based on the results of the impairment tests completed, the Company recognized non-cash impairment charges of \$35.4 million (net of \$12.4 million income tax recovery) in the Neocomian CGU due to increased estimated transportation expenses as a result of an announcement during the quarter that the third-party Grandpuits refinery plans on converting into a zero-crude platform in 2021. As a result of this change, the Company estimates that incremental transportation expenses will be incurred to transport the crude oil production in the Neocomian, Chaunoy, and Champotran CGUs to alternative refineries in France.

The following benchmark price forecasts were used to calculate the recoverable amounts:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 ⁽²⁾
Brent Crude (\$ US/bbl) ⁽¹⁾	44.00	46.75	51.00	56.50	60.00	62.95	64.13	65.33	66.56	67.81
WTI Crude (\$ US/bbl) ⁽¹⁾	42.00	44.00	47.50	52.50	56.00	58.95	60.13	61.33	62.56	63.81
NBP (€/mmbtu) ⁽¹⁾	3.87	4.03	4.41	4.58	4.79	5.00	5.21	5.42	5.63	5.83
AECO Spot Gas (\$/mmbtu) ⁽¹⁾	3.00	2.90	2.70	2.60	2.60	2.65	2.70	2.76	2.81	2.87
Exchange rate (CAD/USD)	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

(1) The forecast benchmark commodity prices listed are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations.

(2) In 2030 and beyond, commodity price forecasts are inflated at a rate of 2.0% per annum. In 2030 and beyond there is no escalation of exchange rates.

The following are the results of impairment tests completed and sensitivity impacts which would increase impairment charges taken:

Operating Segment	CGU	Impairment	1% increase in discount rate	5% decrease in pricing
France	Neocomian	47,777	5,184	13,235

Q2 2020 impairment

In the second quarter of 2020, indicators of impairment were present due to a decline in the Company's market capitalization. As a result of the indicators of impairment, the Company performed impairment tests across all CGUs. The recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 11.5%. Based on the results of the impairment tests completed, the Company recognized non-cash impairment charges of \$53.1 million (net of \$16.6 million income tax recovery).

The following benchmark price forecasts were used to calculate the recoverable amounts:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 ⁽²⁾
Brent Crude (\$ US/bbl) ⁽¹⁾	43.50	48.00	51.50	56.50	60.00	62.95	64.13	65.33	66.56	67.81
WTI Crude (\$ US/bbl) ⁽¹⁾	41.00	44.00	47.50	52.50	56.00	58.95	60.13	61.33	62.56	63.81
NBP (€/mmbtu) ⁽¹⁾	2.75	4.25	4.75	5.25	5.75	6.00	6.25	6.50	6.75	7.00
AECO Spot Gas (\$/mmbtu) ⁽¹⁾	2.10	2.35	2.40	2.45	2.55	2.65	2.70	2.76	2.81	2.87
Exchange rate (CAD/USD)	0.74	0.74	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

(1) The forecast benchmark commodity prices listed are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations.

(2) In 2030 and beyond, commodity price forecasts are inflated at a rate of 2.0% per annum. In 2030 and beyond there is no escalation of exchange rates.

The following are the results of impairment tests completed and sensitivity impacts which would increase impairment charges taken:

Operating Segment	CGU	Impairment	1% increase in discount rate	5% decrease in pricing
Australia	Australia	33,475	3,435	15,470
Germany	Germany Gas	10,177	1,370	2,818
Ireland	Ireland	26,061	9,198	19,208
Total		69,713	14,003	37,496

Q1 2020 impairment

In the first quarter of 2020, indicators of impairment were present due to global commodity price forecasts deteriorating from decreases in demand and an increase of supply around the world. As a result of the indicators of impairment, the Company performed impairment tests across all CGUs. The recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 11.5%. Based on the results of the impairment tests completed, the Company recognized non-cash impairment charges of \$1.2 billion (net of \$0.4 billion income tax recovery).

The following benchmark price forecasts were used to calculate the recoverable amounts:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 ⁽²⁾
Brent Crude (\$ US/bbl) ⁽¹⁾	34.00	45.50	52.50	57.50	62.50	62.95	64.13	65.33	66.56	67.81
WTI Crude (\$ US/bbl) ⁽¹⁾	30.00	41.00	47.50	52.50	57.50	58.95	60.13	61.33	62.56	63.81
NBP (€/mmbtu) ⁽¹⁾	3.33	4.25	5.00	5.50	6.00	6.25	6.50	6.75	7.00	7.25
AECO Spot Gas (\$/mmbtu) ⁽¹⁾	1.95	2.25	2.35	2.45	2.55	2.65	2.70	2.76	2.81	2.87
Exchange rate (CAD/USD)	0.72	0.73	0.74	0.74	0.75	0.75	0.75	0.75	0.75	0.75

(1) The forecast benchmark commodity prices listed are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations.

(2) In 2030 and beyond, commodity price forecasts are inflated at a rate of 2.0% per annum. In 2030 and beyond there is no escalation of exchange rates.

The following are the results of impairment tests completed and sensitivity impacts which would increase impairment charges taken:

Operating Segment	CGU	Impairment	1% increase in discount rate	5% decrease in pricing
Australia	Australia	55,583	3,227	13,582
Canada	Saskatchewan	815,909	70,737	141,015
Canada	Drayton Valley Oil	364,879	13,204	23,582
France	Neocomian	22,758	8,576	13,609
Germany	Germany Gas	39,738	3,545	7,084
Ireland	Ireland	119,634	10,333	20,793
United States	United States	146,353	28,051	52,613
Total		1,564,854	137,673	272,278

Q4 2019 impairment

In the fourth quarter of 2019, an indicator of impairment was present in the Ireland CGU due to declining natural gas price forecasts. As a result of the indicator of impairment, the Company performed an impairment test on its Ireland CGU whereby the recoverable amount was compared against its carrying amount. The recoverable amount was determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 9.0%. Based on the results of the impairment test completed, the Company recognized a non-cash impairment charge of \$34.6 million (net of \$11.5 million income tax recovery).

The following benchmark price forecast was used to calculate the recoverable amount:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 ⁽²⁾
NBP (€/mmbtu) ⁽¹⁾	5.58	5.51	5.54	5.65	5.77	5.88	6.00	6.12	6.24	6.37

(1) The forecast benchmark commodity prices listed are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations.

(2) In 2030 and beyond, commodity price forecasts are inflated at a rate of 2.0% per annum.

The following is the result of the impairment test completed and sensitivity impacts of a 1% increase in after-tax discount rate and a 5% decrease in pricing on the impairment test completed:

CGU	Operating Segment	Impairment	1% increase in discount rate	5% decrease in pricing
Ireland	Ireland	46,055	14,749	28,598

Changes in any of the key judgments, such as a revision in reserves, changes in forecast commodity prices, foreign exchange rates, capital or operating costs would impact the estimated recoverable amount.

Q4 2020 CGU Realignment

Previously, Vermilion's assets in Alberta were managed and organized based primarily on geological characteristics and were grouped into the Drayton Valley Gas and Drayton Valley Oil CGUs. In the fourth quarter of 2020, the Company finalized an evaluation of the management and organization of Vermilion's assets in Alberta resulting in a re-organization based primarily on geographical characteristics. This process resulted in the combination of its Drayton Valley Gas and Drayton Valley Oil CGU's into a combined Alberta CGU.

5. Exploration and evaluation assets

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

	2020	2019
Balance at January 1	286,149	303,295
Acquisitions	1,380	—
Additions	14,721	36,487
Changes in asset retirement obligations	(500)	36
Transfers to capital assets	—	(27,918)
Depreciation	(54,838)	(18,689)
Foreign exchange	7,182	(7,062)
Balance at December 31	254,094	286,149
Cost	395,615	371,632
Accumulated depreciation	(141,521)	(85,483)
Carrying amount at December 31	254,094	286,149

6. Asset retirement obligations

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

	2020	2019
Balance at January 1	618,201	650,164
Additional obligations recognized	1,484	7,595
Changes in estimated abandonment timing and costs	74,235	39,722
Obligations settled	(14,278)	(19,442)
Accretion	35,318	32,667
Changes in discount rates	(276,673)	(57,635)
Foreign exchange	29,450	(34,870)
Balance at December 31	467,737	618,201

Vermilion calculated the present value of the obligations using a credit-adjusted risk-free rate, calculated using a credit spread of 9.5% (as at December 31, 2019 - 5.3%) added to risk-free rates based on long-term, risk-free government bonds. Vermilion's credit spread is determined as the yield to maturity on its senior unsecured notes as at the reporting period.

The country specific risk-free rates used as inputs to discount the obligations were as follows:

	Dec 31, 2020	Dec 31, 2019
Canada	1.2 %	1.7 %
United States	1.6 %	2.4 %
France	0.3 %	0.9 %
Netherlands	(0.6)%	(0.1)%
Germany	(0.2)%	0.3 %
Ireland	(0.1)%	0.6 %
Australia	1.3 %	1.6 %

Vermilion has estimated the asset retirement obligations based on current cost estimates of \$2.0 billion (2019 - \$1.8 billion). Current cost estimates are inflated to the estimated time of abandonment using inflation rates of between 0.2% and 2.9% (2019 - between 0.4% and 2.7%), resulting in inflated cost estimates of \$2.5 billion (2019 - \$2.6 billion). These payments are expected to be made between 2021 and 2080, with the majority of costs occurring between 2030 and 2040 (\$0.8 billion) and 2049 to 2056 (\$0.8 billion).

A 0.5% increase/decrease in the discount rate applied to asset retirement obligations would decrease/increase asset retirement obligations by approximately \$26.8 million. A one-year increase/decrease in the expected timing of abandonment spend would decrease/increase asset retirement obligations by approximately \$37.7 million.

7. Derivative instruments

The following table reconciles the change in the fair value of Vermilion's derivative instruments:

	Year Ended	
	Dec 31, 2020	Dec 31, 2019
Fair value of contracts, beginning of year	(10,991)	38,339
Reversal of opening contracts settled during the year	12,811	(62,735)
Realized gain on contracts settled during the year	109,093	84,219
Unrealized (loss) gain during the year on contracts outstanding at the end of the year	(113,766)	5,308
Net receipt from counterparties on contract settlements during the year	(109,093)	(84,219)
Unrealized loss on derivatives designated as cash flow hedges	(7,826)	(1,071)
Unrealized gain on derivatives designated as net investment hedges	—	9,168
Fair value of contracts, end of year	(119,772)	(10,991)
Comprised of:		
Current derivative asset	16,924	55,645
Current derivative liability	(130,919)	(62,405)
Non-current derivative asset	2,451	20,127
Non-current derivative liability	(8,228)	(24,358)
Fair value of contracts, end of year	(119,772)	(10,991)

The gain on derivative instruments for 2020 and 2019 were comprised of the following:

	Year Ended	
	Dec 31, 2020	Dec 31, 2019
Realized gain on contracts settled during the year	(109,093)	(84,219)
Reversal of opening contracts settled during the year	(12,811)	62,735
Unrealized loss (gain) on contracts outstanding at the end of the year	113,766	(5,308)
Gain on derivative instruments	(8,138)	(26,792)

Please refer to Note 17 (Supplemental information) for a listing of Vermilion's outstanding derivative instruments as at December 31, 2020.

8. Leases

Vermilion had the following future commitments associated with its lease obligations:

(\$M)	As at	
	Dec 31, 2020	Dec 31, 2019
Less than 1 year	27,927	29,217
1 - 3 years	41,270	46,501
3 - 5 years	31,412	38,177
After 5 years	14,178	26,168
Total lease payments	114,787	140,063
Amounts representing interest	(15,381)	(23,309)
Present value of net lease payments	99,406	116,754
Current portion of lease obligations	(22,882)	(23,682)
Non-current portion of lease obligations	76,524	93,072
Total cash outflow	31,240	33,276
Interest on lease liabilities	6,192	6,984

9. Taxes

The following table reconciles Vermilion's deferred tax asset and liability:

	As at	
	Dec 31, 2020	Dec 31, 2019
Deferred tax assets:		
Non-capital losses	420,060	454,339
Derivative contracts	33,064	2,712
Other	14,766	3,149
Stock based compensation	12,218	—
Asset retirement obligations	7,581	36,170
Capital assets	443	(296,793)
Unrealized foreign exchange	(3,635)	(3,034)
Deferred tax assets	484,497	196,543
Deferred tax liabilities:		
Asset retirement obligations	184,144	123,257
Capital assets	112,818	262,669
Other	1,682	(1,610)
Non-capital losses	(34,372)	(48,007)
Deferred tax liabilities	264,272	336,309

Income tax expense differs from the amount that would have been expected if the reported earnings had been subject only to the statutory Canadian income tax rate as follows:

	Year Ended	
	Dec 31, 2020	Dec 31, 2019
Earnings before income taxes	(1,877,399)	141,125
Canadian corporate tax rate ⁽¹⁾	25.31 %	26.72 %
Expected tax expense	(475,170)	37,709
Increase (decrease) in taxes resulting from:		
Petroleum resource rent tax rate (PRRT) differential ⁽²⁾	(15,157)	17,455
Foreign tax rate differentials ^{(2) (3)}	(14,907)	5,543
Equity based compensation expense	2,445	3,733
Amended returns and changes to estimated tax pools and tax positions	(2,598)	(24,387)
Statutory rate changes and the estimated reversal rates on temporary differences ⁽⁴⁾	33,770	9,543
Derecognition (recognition) of deferred tax assets	141,315	65,522
Adjustment for uncertain tax positions	—	3,659
Other non-deductible items	(29,670)	(10,451)
Provision for income taxes	(359,972)	108,326

⁽¹⁾ In Canada, the lower tax rate is a result of reductions to the Alberta corporate tax rate from 10% to 8%.

⁽²⁾ In Australia, current taxes include both corporate income tax rates and PRRT. Corporate income tax rates were applied at a rate of 30% and PRRT was applied at a rate of 40%.

⁽³⁾ The applicable tax rates for 2020 were: 28.9% in France, 50.0% in the Netherlands, 31.6% in Germany, 25.0% in Ireland, and 21.0% in the United States (2019: 32.0% in France, 50.0% in the Netherlands, 31.8% in Germany, 25.0% in Ireland, and 21.0% in the United States).

⁽⁴⁾ On December 28, 2019, the French Parliament approved the Finance Bill for 2020. The Finance Bill for 2020 provides for a progressive decrease of the French corporate income tax rate for companies with sales below €250 million from 32.0% to 25.8% by 2022. On July 1, 2020, the Alberta government reduced the provincial corporate tax rate from 10% to 8%, accelerating the previously enacted schedule of rate reductions.

At December 31, 2020, Vermilion had \$2.9 billion (2019 - \$2.5 billion) of unused tax losses of which \$1.3 billion (2019 - \$1.2 billion) relates to Vermilion's Canada segment and expire between 2028 and 2040. The majority of the remaining unused tax losses relates to Vermilion's Ireland segment and do not expire.

At December 31, 2020, Vermilion derecognized \$141.3 million (2019 - derecognized \$65.5 million) of deferred income tax assets primarily relating to the aforementioned non-expiring tax loss in Ireland as there is uncertainty as to the Company's ability to fully utilize such losses based on the forecasted commodity prices in effect as at December 31, 2020.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized as at December 31, 2020 is approximately \$0.5 billion (2019 – approximately \$0.5 billion).

10. Long-term debt

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

	As at	
	Dec 31, 2020	Dec 31, 2019
Revolving credit facility	1,555,215	1,539,225
Senior unsecured notes	378,633	385,440
Long-term debt	1,933,848	1,924,665

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 December 31, 2020 was \$329.1 million.

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

	2020	2019
Balance at January 1	1,924,665	1,796,207
Borrowings on the revolving credit facility	22,183	207,787
Amortization of transaction costs	833	4,379
Foreign exchange	(13,833)	(83,708)
Balance at December 31	1,933,848	1,924,665

Revolving credit facility

In Q1 2020, we negotiated an extension to our \$2.1 billion revolving credit facility to extend the maturity to May 31, 2024.

As at December 31, 2020, Vermilion had in place a bank revolving credit facility maturing May 31, 2024 with the following terms:

	As at	
	Dec 31, 2020	Dec 31, 2019
Total facility amount	2,100,000	2,100,000
Amount drawn	(1,555,215)	(1,539,225)
Letters of credit outstanding	(23,210)	(10,230)
Unutilized capacity	521,575	550,545

The facility can be extended 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 December 31, 2020, the revolving credit facility was subject to the following financial covenants:

Financial covenant	Limit	As at	
		Dec 31, 2020	Dec 31, 2019
Consolidated total debt to consolidated EBITDA	Less than 4.0	3.48	1.94
Consolidated total senior debt to consolidated EBITDA	Less than 3.5	2.82	1.56
Consolidated EBITDA to consolidated interest expense	Greater than 2.5	8.12	13.46

The financial covenants include financial measures defined within the revolving credit facility agreement that are not defined under IFRS. 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 "Lease obligations" (including the current portion included within "Accounts payable and accrued liabilities" but excluding operating leases as defined under IAS 17) on the balance sheet.
- Consolidated total senior debt: Defined as consolidated total debt excluding unsecured and subordinated debt.
- Consolidated EBITDA: Defined as consolidated net earnings before interest, income taxes, depreciation, accretion and certain other non-cash items, adjusted for the impact of the acquisition of a material subsidiary.
- Consolidated total interest expense: Includes all amounts classified as "Interest expense", but excludes interest on operating leases as defined under IAS 17.

In addition, our revolving credit facility has provisions relating to our liability management ratings in Alberta and Saskatchewan whereby if our security adjusted liability management ratings fall below specified limits in a province, a portion of the asset retirement obligations are included in the definitions of consolidated total debt and consolidated total senior debt. An event of default occurs if our security adjusted liability management ratings breach additional lower limits for a period greater than 90 days. As of December 31, 2020, Vermilion's liability management ratings were higher than the specified levels, and as such, no amounts relating to asset retirement obligations were included in the calculation of consolidated total debt and consolidated total senior debt.

As at December 31, 2020 and 2019, 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. The notes mature on March 15, 2025. As direct senior unsecured obligations of Vermilion, the notes rank equally with existing and future senior unsecured 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 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, if redeemed during the twelve-month period beginning on March 15 of each of the years indicated below:

Year	Redemption price
2021	102.813 %
2022	101.406 %
2023 and thereafter	100.000 %

Cross currency interest rate swaps

On June 12, 2019, Vermilion entered into a series of cross currency interest rate swaps with a syndicate of banks. Vermilion applied hedge accounting to these derivative instruments. The cross currency interest rate swaps had an original maturity of March 15, 2025.

The USD-to-CAD cross currency interest swaps were designated as the hedging instrument in a cash flow hedge while the CAD-to-EUR cross currency interest rate swaps were designated as the hedging instrument in a net investment hedge.

In 2020, Vermilion executed a number of transactions that resulted in a termination of the cross currency interest rate swaps in exchange for \$42.3 million (\$16.8 million received in the three months ended March 30, 2020 and \$25.5 million received in the three months ended June 30, 2020). As a result of the termination, Vermilion has discontinued hedge accounting and amounts previously recognized for the hedge reserve within accumulated other comprehensive income will be reclassified into net income over the remaining life of the senior unsecured notes.

11. Shareholders' capital

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

Shareholders' capital	2020		2019	
	Shares ('000s)	Amount (\$M)	Shares ('000s)	Amount (\$M)
Balance at January 1	156,290	4,119,031	152,704	4,008,828
Shares issued for the Dividend Reinvestment Plan	619	8,277	1,417	34,937
Vesting of equity based awards	1,103	49,188	1,359	51,108
Shares issued for equity based compensation	415	3,203	552	15,868
Share-settled dividends on vested equity based awards	297	1,461	258	8,290
Balance at December 31	158,724	4,181,160	156,290	4,119,031

Vermilion is authorized to issue an unlimited number of common shares with no par value.

Dividends declared to shareholders for the year ended December 31, 2020 were \$90.1 million or \$0.58 per common share (2019 - \$427.3 million or \$2.76 per common share).

At Vermilion's Annual General and Special Meeting held on April 28, 2020 shareholders of the Company approved a \$3.7 billion reduction in the stated capital of Vermilion's common shares, with the \$3.7 billion reduction deducted from the stated capital account maintained for the common shares of Vermilion and an offsetting increase to the contributed surplus account of Vermilion. The transaction did not result in an adjustment to the financial statements under IFRS.

12. Capital disclosures

Vermilion defines capital as net debt (long-term debt plus net working capital) and shareholders' capital. Vermilion excludes from its definition of capital any obligations secured by an offsetting asset, such as lease obligations.

Vermilion monitors the ratio of net debt to fund flows from operations. As at December 31, 2020, our ratio of net debt to trailing fund flows from operations is 4.19 (2019 - 2.20). Vermilion manages the ratio of net debt to fund flows from operations (refer to Note 3 - Segmented information) by

monitoring capital expenditures, dividends, and asset retirement obligations with expected fund flows from operations. Vermilion intends for the ratio of net debt to fund flows from operations to trend towards 1.5 over time.

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

	Year Ended	
	Dec 31, 2020	Dec 31, 2019
Long-term debt	1,933,848	1,924,665
Current liabilities	433,128	416,210
Current assets	(260,993)	(347,681)
Net debt	2,105,983	1,993,194
Ratio of net debt to four quarter trailing fund flows from operations	4.19	2.20

13. Equity based compensation

The following table summarizes the number of awards outstanding under the VIP:

	2020	2019
Opening balance	2,268	1,931
Granted	5,120	1,193
Vested	(650)	(688)
Forfeited	(494)	(168)
Closing balance	6,244	2,268

For the year ended December 31, 2020, the awards had a weighted average grant date fair value of \$5.92 (2019 - \$30.92). Equity based compensation expense for the awards is calculated based on the number of awards outstanding multiplied by the estimated performance factor that will be realized upon vesting (2020 - 1.2; 2019 - 1.7) adjusted by an estimated annual forfeiture rate (2020 - 5.8%; 2019 - 5.2%). Equity based compensation expense of \$38.9 million was recorded during the year ended December 31, 2020 (2019 - \$46.6 million) relating to the awards.

For the year ended December 31, 2020, there were 252,910 DSUs granted and outstanding with a weighted average grant date fair value of \$4.48. Equity based compensation expense of \$0.8 million was recorded during the year ended December 31, 2020 relating to the DSUs.

14. Per share amounts

Basic and diluted net (loss) earnings per share have been determined based on the following:

	Year Ended	
	Dec 31, 2020	Dec 31, 2019
Net (loss) earnings	(1,517,427)	32,799
Basic weighted average shares outstanding ('000s)	157,908	154,736
Dilutive impact of equity based compensation ('000s)	—	1,359
Diluted weighted average shares outstanding ('000s)	157,908	156,095
Basic loss per share	(9.61)	0.21
Diluted loss per share	(9.61)	0.21

15. Financial instruments

Classification of financial instruments

The following table summarizes the carrying value relating to Vermilion's financial instruments:

(\$M)	As at Dec 31, 2020				As at Dec 31, 2019			
	FVTPL	FVTOCI	Amortized Cost	Total	FVTPL	FVTOCI	Amortized Cost	Total
Cash and cash equivalents	6,904	—	—	6,904	29,028	—	—	29,028
Derivative assets	19,375	—	—	19,375	64,135	11,637	—	75,772
Derivative liabilities	(139,147)	—	—	(139,147)	(83,223)	(3,540)	—	(86,763)
Accounts receivable	—	—	196,077	196,077	—	—	211,409	211,409
Accounts payable and accrued liabilities	—	—	(297,670)	(297,670)	—	—	(312,442)	(312,442)
Dividends payable	—	—	—	—	—	—	(35,947)	(35,947)
Lease obligations	—	—	(76,524)	(76,524)	—	—	(93,072)	(93,072)
Long-term debt ⁽¹⁾	—	—	(1,933,848)	(1,933,848)	—	—	(1,924,665)	(1,924,665)

⁽¹⁾ The carrying value of the above equals fair value except for long-term debt. The fair value of long-term debt was \$1,884,296 (2019 - \$1,905,588).

The carrying value of accounts receivable, accounts payable and accrued liabilities, dividends payable and lease obligations are a reasonable approximation of their fair value due to the short maturity of these financial instruments. The carrying value of long-term debt outstanding on the revolving credit facility approximates its fair value due to the use of short-term borrowing instruments at market rates of interest.

Fair value measurements are categorized into a fair value hierarchy based on the lowest level input that is significant to the fair value measurement:

- Level 1 inputs are determined by reference to unadjusted quoted prices in active markets for identical assets or liabilities. Inputs used in fair value measurement of cash and cash equivalents, the revolving credit facility, and the senior unsecured notes are categorized as Level 1.
- Level 2 inputs are determined based on inputs other than unadjusted quoted prices that are observable, either directly or indirectly. The fair value of Vermilion's derivative assets and liabilities are determined using pricing models that incorporate future price forecasts (supported by prices from observable market transactions) and credit risk adjustments.
- Level 3 inputs are not based on observable market data. Vermilion does not have any financial instruments classified as Level 3.

There were no transfers between levels in the hierarchy in the years ended December 31, 2020 and 2019.

Nature and Extent of Risks Associated with Financial Instruments

Vermilion is exposed to financial risks from its financial instruments. These financial risks include: market risk (includes commodity price risk, interest rate risk, and currency risk), credit risk, and liquidity risk.

Commodity price risk

Vermilion is exposed to commodity price risk on its derivative assets and liabilities which are used as part of the Company's risk management program to mitigate the effects of changes in commodity prices on future cash flows. While transactions of this nature relate to future petroleum and natural gas production, Vermilion does not designate these derivative assets and liabilities as accounting hedges. As such, changes in commodity prices impact the fair value of derivative instruments and the corresponding gains or losses recognized on derivative instruments.

Currency risk

Vermilion is exposed to currency risk on its financial instruments denominated in foreign currencies. These financial instruments include cash and cash equivalents, accounts receivables, accounts payables, lease obligations, long-term debt, derivative assets and derivative liabilities. These financial instruments are primarily denominated in the US dollar and the Euro. Vermilion monitors its exposure to currency risk and reviews whether the use of derivative financial instruments is appropriate to manage potential fluctuations in foreign exchange rates.

Interest rate risk

Vermilion is exposed to interest rate risk on its revolving credit facility, which consists of short-term borrowing instruments that bear interest at market rates. Thus, changes in interest rates could result in an increase or decrease in the amount paid by Vermilion to service this debt.

The following table summarizes the increase (positive values) or decrease (negative values) to net earnings 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)	Dec 31, 2020	Dec 31, 2019
Currency risk - Euro to Canadian dollar		
\$0.01 increase in strength of the Canadian dollar against the Euro	(873)	(1,599)
\$0.01 decrease in strength of the Canadian dollar against the Euro	873	1,599
Currency risk - US dollar to Canadian dollar		
\$0.01 increase in strength of the Canadian dollar against the US \$	2,711	(5,594)
\$0.01 decrease in strength of the Canadian dollar against the US \$	(2,711)	5,594
Commodity price risk - Crude oil		
US \$5.00/bbl increase in crude oil price used to determine the fair value of derivatives	(11,783)	(44,106)
US \$5.00/bbl decrease in crude oil price used to determine the fair value of derivatives	7,207	47,777
Commodity price risk - European natural gas		
€ 0.5/GJ increase in European natural gas price used to determine the fair value of derivatives	(23,904)	(28,192)
€ 0.5/GJ decrease in European natural gas price used to determine the fair value of derivatives	24,088	22,670
Share price risk - Equity swaps		
\$1.00 increase from initial share price of the equity swap	3,750	3,750
\$1.00 decrease from initial share price of the equity swap	(3,750)	(3,750)

Credit risk:

Vermilion is exposed to credit risk on accounts receivable and derivative assets in the event that customers, joint operation partners, or counterparties fail to discharge their contractual obligations. As at December 31, 2020, Vermilion's maximum exposure to receivable credit risk was \$215.5 million (December 31, 2019 - \$287.2 million) which is the value of accounts receivable and derivative assets on the balance sheet.

Vermilion's accounts receivable primarily relates to customers and joint operations partners in the petroleum and natural gas industry. These amounts are subject to normal industry payment terms and credit risks. Vermilion manages these risks by monitoring the creditworthiness of customers and joint operations partners and, where appropriate, obtaining assurances such as parental guarantees and letters of credit. Vermilion determines the lifetime expected credit losses recognized on accounts receivable using a provision matrix. In preparing the provision matrix, the Company takes into account historical credit loss experience based on the aging of accounts receivable, adjusted as necessary for current and future petroleum and natural gas prices to the extent that changes in pricing may negatively impact the Company's customers and joint operations partners. The lifetime expected credit losses on accounts receivable as at December 31, 2020 and 2019 is not material. As at the balance sheet date, approximately 1.4% (2019 - 3.6%) of the accounts receivable balance was outstanding for more than 90 days. Vermilion considers the balance of accounts receivable to be collectible.

Vermilion's derivative assets primarily relates to the fair value of financial instruments used as part of the Company's risk management program to mitigate the effects of changes in commodity prices on future cash flows. Vermilion manages this risk by monitoring the creditworthiness of counterparties, transacting primarily with counterparties that have investment grade third party credit ratings, and by limiting the concentration of financial exposure to individual counterparties. As a result, Vermilion has not obtained collateral or other security to support its financial derivatives.

Vermilion's cash deposited in financial institutions and guaranteed investment certificates are also subject to counterparty credit risk. Vermilion mitigates this risk by transacting with financial institutions with high third party credit ratings.

Liquidity risk:

Liquidity risk is the risk that Vermilion will encounter difficulty in meeting obligations associated with its financial liabilities. Vermilion does not consider this to be a significant risk as its financial position and available committed borrowing facility provide significant financial flexibility and allow Vermilion to meet its obligations as they come due.

The following table summarizes Vermilion's undiscounted non-derivative financial liabilities and their contractual maturities:

(\$M)	1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years
December 31, 2020	92,991	181,475	23,204	2,006,530
December 31, 2019	134,502	208,752	5,136	1,608,435

16. Related party disclosures

The compensation of directors and management is reviewed annually by the independent Governance and Human Resources Committee against industry practices for oil and gas companies of similar size and scope.

The following table summarizes the compensation of directors and other members of key management personnel during the years ended December 31, 2020 and 2019:

	Year Ended	
	Dec 31, 2020	Dec 31, 2019
Short-term benefits	4,800	8,084
Equity based compensation	13,169	16,296
	17,969	24,380
Number of individuals included in the above amounts	18	19

During the year ended December 31, 2020, Vermilion recorded \$0.2 million of office rent recoveries (2019 - \$0.2 million) relating to an office sub-lease to a company whose Managing Director is also a member of Vermilion's Board of Directors. This related party transaction is provided in the normal course of business under the same commercial terms and conditions as transactions with unrelated companies and is recorded at the exchange amount.

17. Supplemental information

Changes in non-cash working capital was comprised of the following:

	Year Ended	
	Dec 31, 2020	Dec 31, 2019
Changes in:		
Accounts receivable	15,332	48,913
Crude oil inventory	15,987	(1,638)
Prepaid expenses	(5,476)	(2,882)
Accounts payable and accrued liabilities	(14,772)	(137,209)
Income taxes payable	(877)	(31,994)
Foreign exchange	(6,251)	2,590
Changes in non-cash working capital	3,943	(122,220)
Changes in non-cash operating working capital	12,365	(65,148)
Changes in non-cash investing working capital	(8,422)	(57,072)
Changes in non-cash working capital	3,943	(122,220)

Cash and cash equivalents was comprised of the following:

	As at	
	Dec 31, 2020	Dec 31, 2019
Cash on deposit with financial institutions	6,777	28,898
Guaranteed investment certificates	127	130
Cash and cash equivalents	6,904	29,028

Wages and benefits included in operating expenses and general and administration expenses were:

	Year Ended	
	Dec 31, 2020	Dec 31, 2019
Operating expense	70,414	77,868
General and administration expense	60,551	47,310
Wages and benefits	130,965	125,178

The following tables summarize Vermilion's outstanding risk management positions as at December 31, 2020:

	Unit	Currency	Bought Put Volume	Weighted Average Bought Put Price	Sold Call Volume	Weighted Average Sold Call Price	Sold Put Volume	Weighted Average Sold Put Price	Sold Swap Volume	Weighted Average Sold Swap Price	Bought Swap Volume	Weighted Average Bought Swap Price
Dated Brent												
Q1 2021	bbl	USD	1,000	47.50	1,000	53.75	1,000	40.00	2,000	49.18	—	—
Q2 2021	bbl	USD	—	—	—	—	—	—	500	47.50	—	—
WTI												
Q1 2021	bbl	USD	4,500	45.00	4,500	51.26	4,500	37.50	4,300	45.51	—	—
Q2 2021	bbl	USD	4,000	45.00	4,000	53.50	4,000	37.50	2,150	45.54	—	—
AECO												
Q2 2021	mcf	CAD	—	—	—	—	—	—	9,478	2.12	—	—
Q3 2021	mcf	CAD	—	—	—	—	—	—	9,478	2.12	—	—
Q4 2021	mcf	CAD	—	—	—	—	—	—	3,194	2.12	—	—
AECO Basis (AECO less NYMEX Henry Hub)												
Q1 2021	mcf	USD	—	—	—	—	—	—	30,000	(1.11)	—	—
Q2 2021	mcf	USD	—	—	—	—	—	—	45,000	(1.08)	—	—
Q3 2021	mcf	USD	—	—	—	—	—	—	45,000	(1.08)	—	—
Q4 2021	mcf	USD	—	—	—	—	—	—	35,054	(1.09)	—	—
Q1 2022	mcf	USD	—	—	—	—	—	—	30,000	(1.10)	—	—
Q2 2022	mcf	USD	—	—	—	—	—	—	35,000	(1.09)	—	—
Q3 2022	mcf	USD	—	—	—	—	—	—	35,000	(1.09)	—	—
Q4 2022	mcf	USD	—	—	—	—	—	—	11,793	(1.09)	—	—
NYMEX Henry Hub												
Q1 2021	mcf	USD	15,000	2.73	15,000	2.90	—	—	33,500	2.86	—	—
Q2 2021	mcf	USD	10,000	2.65	10,000	2.77	—	—	28,500	2.83	—	—
Q3 2021	mcf	USD	10,000	2.65	10,000	2.77	—	—	28,500	2.83	—	—
Q4 2021	mcf	USD	10,000	2.65	10,000	2.77	—	—	21,870	2.78	—	—
Ventura Basis (Ventura less NYMEX Henry Hub)												
Q1 2021	mcf	USD	—	—	—	—	—	—	—	—	10,000	0.04
Q2 2021	mcf	USD	—	—	—	—	—	—	—	—	10,000	0.04
Q3 2021	mcf	USD	—	—	—	—	—	—	—	—	10,000	0.04
Q4 2021	mcf	USD	—	—	—	—	—	—	—	—	3,370	0.04
SoCal Border												
Q1 2021	mcf	USD	—	—	—	—	—	—	5,000	3.40	—	—
Conway Propane												
Q1 2021	bbl	USD	—	—	—	—	—	—	500	56% WTI	—	—

	Unit	Currency	Bought Put Volume	Weighted Average Bought Put Price	Sold Call Volume	Weighted Average Sold Call Price	Sold Put Volume	Weighted Average Sold Put Price	Sold Swap Volume	Weighted Average Sold Swap Price	Bought Swap Volume	Weighted Average Bought Swap Price
NBP												
Q1 2021	mcf	EUR	58,962	5.37	61,419	5.45	58,962	3.88	2,457	4.69	—	—
Q2 2021	mcf	EUR	49,135	5.37	49,135	5.43	49,135	3.87	2,457	4.69	—	—
Q3 2021	mcf	EUR	49,135	5.37	49,135	5.42	49,135	3.87	2,457	4.69	—	—
Q4 2021	mcf	EUR	58,962	5.37	58,962	5.36	58,962	3.88	2,457	4.69	—	—
Q1 2022	mcf	EUR	34,394	5.18	34,394	5.88	34,394	3.63	2,457	4.69	—	—
Q2 2022	mcf	EUR	27,024	5.07	27,024	5.64	27,024	3.50	2,457	4.69	—	—
Q3 2022	mcf	EUR	14,740	4.86	14,740	5.42	14,740	3.42	2,457	4.69	—	—
Q4 2022	mcf	EUR	14,740	4.86	14,740	5.41	14,740	3.42	2,457	4.69	—	—
Q1 2023	mcf	EUR	7,370	4.74	7,370	4.96	7,370	3.32	—	—	—	—
TTF												
Q2 2021	mcf	EUR	2,457	4.25	2,457	3.93	2,457	2.93	—	—	—	—
Q3 2021	mcf	EUR	2,457	4.25	2,457	3.92	2,457	2.93	—	—	—	—
Q1 2022	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—	—	—
Q2 2022	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—	—	—
Q3 2022	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—	—	—
Q4 2022	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—	—	—
Q1 2023	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—	—	—

VET Equity Swaps				Initial Share Price		Share Volume
Swap	Jan 2020 - Sep 2021			20.9788	CAD	2,250,000
Swap	Jan 2020 - Oct 2021			22.4587	CAD	1,500,000

Foreign Currency Swaps			Notional Amount		Notional Amount		Average Rate
Swap	Jan 2021		1,200,342,790	USD	1,570,298,550	CAD	1.3082

The following sold option instruments allow the counterparties, at the specified date, to enter into a derivative instrument contract with Vermilion at the detailed terms:

Period if Option Exercised	Unit	Currency	Option Expiration Date	Bought Put Volume	Weighted Average Bought Put Price	Sold Call Volume	Weighted Average Sold Call Price	Sold Put Volume	Weighted Average Sold Put Price	Sold Swap Volume	Weighted Average Sold Swap Price
NYMEX											
Apr 2021 - Oct 2021	mcf	USD	24-Mar-21	—	—	—	—	—	—	10,000	2.90
NBP											
Jan 2022 - Dec 2022	mcf	EUR	30-Jun-21	—	—	—	—	—	—	2,457	5.13
Dated Brent											
Apr 2021 - Mar 2022	bbl	USD	31-Mar-21	—	—	—	—	—	—	500	52.00

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Golden, Colorado

Stephen P. Larke^{4, 6, 12}
Calgary, Alberta

Loren M. Leiker^{10, 13}
McKinney, Texas

Timothy R. Marchant^{7, 10, 11}
Calgary, Alberta

Robert Michaleski^{3, 6}
Calgary, Alberta

William Roby^{8, 9, 12}
Katy, Texas

Catherine L. Williams^{4, 6}
Calgary, Alberta

¹ Executive Chairman

² Lead Director (Independent)

³ Audit Committee Chair (Independent)

⁴ Audit Committee Member

⁵ Governance and Human Resources Committee Chair (Independent)

⁶ Governance and Human Resources Committee Member

⁷ Health, Safety and Environment Committee Chair (Independent)

⁸ Health, Safety and Environment Committee Member

⁹ Independent Reserves Committee Chair (Independent)

¹⁰ Independent Reserves Committee Member

¹¹ Sustainability Committee Chair (Independent)

¹² Sustainability Committee Member

¹³ New Venture Working Team Chair (Independent)

OFFICERS AND KEY PERSONNEL

CANADA

Lorenzo Donadeo *
Executive Chairman

Curtis Hicks *
President

Lars Glemser *
Vice President & Chief Financial Officer

Dion Hatcher *
Vice President North America

Terry Hergott
Vice President Marketing

Darcy Kerwin *
Vice President International & HSE

Kyle Preston
Vice President Investor Relations

Jenson Tan *
Vice President Business Development

Adam Iwanicki
Director Marketing

Yvonne Jeffery
Director Sustainability

Jeremy Kalanuk
Director Operations Accounting

Bryce Kremnica
Director Field Operations - Canada Business Unit

Tom Rafter
Director Land - Canada Business Unit

Steve Reece
Director Information Technology & Information Systems

Averyl Schraven
Director, People & Culture

Robert (Bob) J. Engbloom
Corporate Secretary

UNITED STATES

Scott Seatter
Managing Director - U.S. Business Unit

EUROPE

Gerard Schut *
Vice President European Operations

Sylvain Nothhelfer
Managing Director - France Business Unit

Sven Tummers
Managing Director - Netherlands Business Unit

Bill Liutkus
Managing Director - Germany Business Unit

Ryan Carty
Managing Director - Ireland Business Unit

AUSTRALIA

Bruce D. Lake
Managing Director - Australia Business Unit

* Executive Committee

AUDITORS

Deloitte LLP
Calgary, Alberta

BANKERS

The Toronto-Dominion Bank

Bank of Montreal

Canadian Imperial Bank of Commerce

Export Development Canada

National Bank of Canada

Royal Bank of Canada

The Bank of Nova Scotia

Wells Fargo Bank N.A., Canadian Branch

Bank of America N.A., Canada Branch

Citibank N.A., Canadian Branch - Citibank Canada

JPMorgan Chase Bank, N.A., Toronto Branch

La Caisse Centrale Desjardins du Québec

Alberta Treasury Branches

Canadian Western Bank

Goldman Sachs Lending Partners LLC

EVALUATION ENGINEERS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL

Norton Rose Fulbright Canada LLP
Calgary, Alberta

TRANSFER AGENT

Odyssey Trust Company

STOCK EXCHANGE LISTINGS

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

INVESTOR RELATIONS

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