Q2 2018

FINANCIAL STATEMENTS

EXCELLENCE. TRUST. RESPECT. RESPONSIBILITY.

INTERNATIONALLY DIVERSIFIED | SUSTAINABLE GROWTH AND INCOME

VERMILION ENERGY

Front Cover Theme

Sustainability is integrated into every facet of Vermilion’s business. This 15-hectare greenhouse is an example of how Vermilion reduces greenhouse emissions with geothermal energy. At Vermilion’s production facility in Parentis-en-Born, France, heat from our produced water is transferred to the heating system of the adjacent greenhouse. The result is an economically and ecologically viable greenhouse operation growing tomatoes with heat generated without carbon emissions.

Across the company, Vermilion has decreased our emissions intensity on a per unit of production basis. This is due to our energy efficiency programs, emission reduction initiatives and an operational structure that maximizes production while reducing our footprint and energy consumption intensity.

Read more about Vermilion's renewable energy projects in our Sustainability Report online at www.vermilionenergy.com.

Disclaimer

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

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

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

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

Natural gas volumes have been converted on the basis of six thousand cubic feet of natural gas to one barrel of oil equivalent. Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Financial data contained within this document are reported in Canadian dollars, unless otherwise stated.

Consolidated Interim Financial Statements

Consolidated Balance Sheet

thousands of Canadian dollars, unaudited

	Note	June 30, 2018	December 31, 2017
Assets			
Current			
Cash and cash equivalents		39,104	46,561
Accounts receivable		229,781	165,760
Crude oil inventory		21,979	17,105
Derivative instruments		9,472	17,988
Prepaid expenses		19,226	14,432
Total current assets		319,562	261,846
Derivative instruments		709	2,552
Deferred taxes		240,261	80,324
Exploration and evaluation assets	6	297,238	292,278
Capital assets	5	4,824,763	3,337,965
Total assets		5,682,533	3,974,965
Liabilities			
Current			
Accounts payable and accrued liabilities		298,670	219,084
Dividends payable	9	35,043	26,256
Derivative instruments		134,050	78,905
Income taxes payable		33,841	39,061
Total current liabilities		501,604	363,306
Derivative instruments		35,060	12,348
Long-term debt	8	1,605,561	1,270,330
Finance lease obligation		32,667	15,807
Asset retirement obligations	7	607,404	517,180
Deferred taxes		249,704	253,108
Total liabilities		3,032,000	2,432,079
Shareholders' equity			
Shareholders’ capital	9	3,995,872	2,650,706
Contributed surplus		51,964	84,354
Accumulated other comprehensive income		87,167	71,829
Deficit		(1,484,470)	(1,264,003)
Total shareholders' equity		2,650,533	1,542,886
Total liabilities and shareholders' equity		5,682,533	3,974,965

Approved by the Board

(Signed “Catherine L. Williams”)

Catherine L. Williams, Director

(Signed “Anthony Marino”)

Anthony Marino, Director

Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income

thousands of Canadian dollars, except share and per share amounts, unaudited

		Three Months Ended		Six Months Ended	
	Note	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenue					
Petroleum and natural gas sales		394,498	271,391	712,767	532,992
Royalties		(31,512)	(17,736)	(54,507)	(33,941)
Petroleum and natural gas revenue		362,986	253,655	658,260	499,051
Expenses					
Operating		79,493	63,074	147,868	115,195
Transportation		11,851	10,843	22,870	20,662
Equity based compensation		10,961	13,896	30,711	32,634
Loss (gain) on derivative instruments		133,143	(28,625)	133,515	(106,639)
Interest expense		15,333	15,508	29,667	30,203
General and administration		16,241	13,167	30,785	26,318
Foreign exchange loss (gain)		16,563	(39,597)	6,384	(37,625)
Other income		(31)	(42)	(37)	(54)
Accretion	7	7,819	6,748	14,973	13,130
Depletion and depreciation	5, 6	140,045	126,269	261,604	241,678
		431,418	181,241	678,340	335,502
(Loss) earnings before income taxes		(68,432)	72,414	(20,080)	163,549
Taxes					
Deferred		(23,552)	13,635	(13,901)	47,317
Current		15,344	10,515	28,906	23,428
		(8,208)	24,150	15,005	70,745
Net (loss) earnings		(60,224)	48,264	(35,085)	92,804
Other comprehensive (loss) income					
Currency translation adjustments		(23,471)	22,357	15,338	33,535
Comprehensive (loss) income		(83,695)	70,621	(19,747)	126,339
Net (loss) earnings per share					
Basic		(0.45)	0.40	(0.27)	0.78
Diluted		(0.45)	0.39	(0.27)	0.76
Weighted average shares outstanding ('000s)					
Basic		134,603	120,514	128,531	119,578
Diluted		134,603	122,660	128,531	121,488

Consolidated Statements of Cash Flows

thousands of Canadian dollars, unaudited

		Three Months Ended		Six Months Ended	
	Note	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Operating					
Net (loss) earnings		(60,224)	48,264	(35,085)	92,804
Adjustments:					
Accretion	7	7,819	6,748	14,973	13,130
Depletion and depreciation	5, 6	140,045	126,269	261,604	241,678
Unrealized loss (gain) on derivative instruments		105,284	(23,283)	87,941	(103,148)
Equity based compensation		10,961	13,896	30,711	32,634
Unrealized foreign exchange loss (gain)		12,458	(38,616)	3,833	(34,098)
Unrealized other expense		199	210	394	240
Deferred taxes		(23,552)	13,635	(13,901)	47,317
Asset retirement obligations settled	7	(2,626)	(2,120)	(6,217)	(4,369)
Changes in non-cash operating working capital		(40,551)	(16,064)	(22,755)	15,387
Cash flows from operating activities		149,813	128,939	321,498	301,575
Investing					
Drilling and development	5	(76,854)	(57,681)	(201,665)	(152,845)
Exploration and evaluation	6	(3,275)	(1,194)	(7,082)	(1,919)
Acquisitions	4, 5	(57,590)	(993)	(113,945)	(3,613)
Changes in non-cash investing working capital		(19,811)	(12,039)	1,036	(4,845)
Cash flows used in investing activities		(157,530)	(71,907)	(321,656)	(163,222)
Financing					
Borrowings (repayments) on the revolving credit facility	8	99,257	5,269	123,166	(488,759)
Issuance of senior unsecured notes	8	—	—	—	391,906
Decrease in finance lease obligation		(1,541)	(1,150)	(2,805)	(2,381)
Cash dividends		(69,981)	(48,206)	(129,206)	(89,126)
Cash flows from (used in) financing activities		27,735	(44,087)	(8,845)	(188,360)
Foreign exchange (loss) gain on cash held in foreign currencies		(213)	1,631	1,546	2,956
Net change in cash and cash equivalents		19,805	14,576	(7,457)	(47,051)
Cash and cash equivalents, beginning of period		19,299	1,148	46,561	62,775
Cash and cash equivalents, end of period		39,104	15,724	39,104	15,724
Supplementary information for cash flows from operating activities					
Interest paid		10,544	10,843	28,678	23,177
Income taxes paid		33,784	10,101	34,126	15,109

Consolidated Statements of Changes in Shareholders' Equity

thousands of Canadian dollars, unaudited

	Six Months Ended	
	June 30, 2018	June 30, 2017
Shareholders' capital		
Balance, beginning of period	2,650,706	2,452,722
Shares issued for acquisition	1,234,676	—
Shares issued for the Dividend Reinvestment Plan	39,616	64,747
Vesting of equity based awards	54,057	69,675
Equity based compensation	9,044	6,397
Share-settled dividends on vested equity based awards	7,773	8,473
Balance, end of period	3,995,872	2,602,014
Contributed surplus		
Balance, beginning of period	84,354	101,788
Equity based compensation	21,667	26,237
Vesting of equity based awards	(54,057)	(69,675)
Balance, end of period	51,964	58,350
Accumulated other comprehensive income		
Balance, beginning of period	71,829	30,339
Currency translation adjustments	15,338	33,535
Balance, end of period	87,167	63,874
Deficit		
Balance, beginning of period	(1,264,003)	(1,006,386)
Net (loss) earnings	(35,085)	92,804
Dividends declared	(177,609)	(154,451)
Share-settled dividends on vested equity based awards	(7,773)	(8,473)
Balance, end of period	(1,484,470)	(1,076,506)
Total shareholders' equity	2,650,533	1,647,732

Please refer to Financial Statement Note 9 (Shareholders' capital) for additional information.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2018 and 2017

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

1. Basis of presentation

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

These condensed consolidated interim financial statements are in compliance with International Accounting Standard ("IAS") 34, "Interim financial reporting". Except as described in Note 2, these condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as Vermilion's consolidated financial statements for the year ended December 31, 2017.

These condensed consolidated interim financial statements should be read in conjunction with Vermilion's consolidated financial statements for the year ended December 31, 2017, which are contained within Vermilion's Annual Report for the year ended December 31, 2017 and are available on SEDAR at www.sedar.com or on Vermilion's website at www.vermilionenergy.com.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of Vermilion on July 27, 2018.

2. Changes in accounting pronouncements

IFRS 9 "Financial instruments"

On January 1, 2018, Vermilion adopted IFRS 9 *"Financial Instruments"* as issued by the IASB. IFRS 9 includes a new classification and measurement approach for financial assets and a forward-looking 'expected credit loss' model. The adoption of IFRS 9 did not have a material impact on Vermilion's consolidated financial statements. Vermilion has revised the description of its accounting policy for financial instruments to reflect the new classification approach as follows:

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: Financial instruments under this classification include cash and cash equivalents and derivative assets and liabilities.
- Amortized cost: Financial instruments under this classification include accounts receivable, accounts payable and accrued liabilities, dividends payable, finance lease obligation, and long-term debt.

IFRS 15 "Revenue from contracts with customers"

On January 1, 2018, Vermilion adopted IFRS 15 "Revenue from Contracts with Customers" IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized. Vermilion's revenue relates to the sale of petroleum and natural gas to customers at specified delivery points at benchmark prices.

Vermilion adopted IFRS 15 using the modified retrospective approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15.

IFRS 15 requires additional disclosure relating to the disaggregation of revenue - this additional disclosure is included in Financial Statement Note 3 (Segmented Information). In addition, as a result of this adoption, Vermilion has revised the description of its accounting policy for revenue recognition as follows:

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 a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. 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 generally invoices customers for delivered products monthly, and payment terms for commodity sales are shortly thereafter. Vermilion does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, Vermilion does not adjust its revenue transactions for the time value of money.

IFRS 16 "Leases"

Vermilion is required to adopt IFRS 16 "Leases" by January 1, 2019. IFRS 16 requires lessees to recognize a lease obligation and right-of-use asset for the majority of leases. On adoption, non-current assets, current liabilities, and non-current liabilities on Vermilion's consolidated balance sheet will increase. Interest expense will be recognized on the lease obligation and lease payments will be applied against the lease obligation. This is expected to result in a decrease to operating expense and general and administration expense and an increase to interest expense. The quantitative impact of the adoption of IFRS 16 is currently being evaluated and Vermilion intends to apply this standard retrospectively with the cumulative effect of initially applying IFRS 16 recognized as an opening adjustment to equity at the date of initial application.

3. Segmented information

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

	Three Months Ended June 30, 2018								
($M)	Canada	France	Netherlands	Germany	Ireland	Australia	USA	Corporate	Total
Drilling and development	28,694	17,050	7,278	1,551	87	11,469	10,702	23	76,854
Exploration and evaluation	—	38	(583)	763	—	—	—	3,057	3,275
Crude oil and condensate sales	123,055	101,128	632	8,765	—	37,364	4,997	—	275,941
NGL sales	13,225	—	—	—	—	—	175	—	13,400
Natural gas sales	12,635	—	34,368	10,234	47,862	—	58	—	105,157
Royalties	(15,463)	(12,602)	(745)	(1,251)	—	—	(1,451)	—	(31,512)
Revenue from external customers	133,452	88,526	34,255	17,748	47,862	37,364	3,779	—	362,986
Transportation	(5,186)	(3,618)	—	(1,779)	(1,268)	—	—	—	(11,851)
Operating	(36,031)	(14,000)	(6,488)	(5,384)	(4,306)	(12,910)	(374)	—	(79,493)
General and administration	(2,719)	(3,500)	(331)	(1,499)	(1,443)	(989)	(1,482)	(4,278)	(16,241)
PRRT	—	—	—	—	—	(2,652)	—	—	(2,652)
Corporate income taxes	—	(5,234)	(4,993)	—	—	(2,354)	—	(111)	(12,692)
Interest expense	—	—	—	—	—	—	—	(15,333)	(15,333)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(27,859)	(27,859)
Realized foreign exchange loss	—	—	—	—	—	—	—	(4,105)	(4,105)
Realized other income	—	—	—	—	—	—	—	230	230
Fund flows from operations	89,516	62,174	22,443	9,086	40,845	18,459	1,923	(51,456)	192,990

	Three Months Ended June 30, 2017								
($M)	Canada	France	Netherlands	Germany	Ireland	Australia	USA	Corporate	Total
Drilling and development	20,599	16,543	5,973	326	(73)	9,158	5,155	—	57,681
Exploration and evaluation	—	139	—	—	—	—	—	1,055	1,194
Crude oil and condensate sales	52,318	63,615	469	5,155	—	48,061	3,944	—	173,562
NGL sales	7,194	—	—	—	—	—	101	—	7,295
Natural gas sales	24,131	—	18,657	11,012	36,671	—	63	—	90,534
Royalties	(8,805)	(6,247)	(296)	(1,228)	—	—	(1,160)	—	(17,736)
Revenue from external customers	74,838	57,368	18,830	14,939	36,671	48,061	2,948	—	253,655
Transportation	(3,944)	(3,686)	—	(1,955)	(1,258)	—	—	—	(10,843)
Operating	(19,347)	(12,153)	(4,892)	(5,753)	(4,903)	(15,639)	(387)	—	(63,074)
General and administration	(3,127)	(3,713)	(560)	(2,099)	(695)	(896)	(1,127)	(950)	(13,167)
PRRT	—	—	—	—	—	(6,468)	—	—	(6,468)
Corporate income taxes	—	(1,830)	(754)	—	—	(1,192)	—	(271)	(4,047)
Interest expense	—	—	—	—	—	—	—	(15,508)	(15,508)
Realized gain on derivative instruments	—	—	—	—	—	—	—	5,342	5,342
Realized foreign exchange gain	—	—	—	—	—	—	—	981	981
Realized other income	—	—	—	—	—	—	—	252	252
Fund flows from operations	48,420	35,986	12,624	5,132	29,815	23,866	1,434	(10,154)	147,123

($M)	Canada	France	Netherlands	Germany	Ireland	Australia	USA	Corporate	Total
				Six Months Ended June 30, 2018					
Total assets	3,231,705	858,262	193,811	286,760	603,845	223,407	122,592	162,151	5,682,533
Drilling and development	97,811	46,988	10,523	3,505	134	16,024	26,570	110	201,665
Exploration and evaluation	—	72	(550)	1,224	—	—	—	6,336	7,082
Crude oil and condensate sales	185,678	173,873	1,107	18,064	—	75,534	8,950	—	463,206
NGL sales	24,864	—	—	—	—	—	241	—	25,105
Natural gas sales	31,306	—	70,079	21,436	101,537	—	98	—	224,456
Royalties	(25,311)	(22,040)	(1,595)	(2,988)	—	—	(2,573)	—	(54,507)
Revenue from external customers	216,537	151,833	69,591	36,512	101,537	75,534	6,716	—	658,260
Transportation	(9,726)	(6,813)	—	(3,777)	(2,554)	—	—	—	(22,870)
Operating	(60,379)	(27,159)	(14,245)	(11,570)	(7,515)	(26,060)	(940)	—	(147,868)
General and administration	(4,586)	(7,013)	(1,299)	(3,095)	(2,752)	(2,523)	(2,799)	(6,718)	(30,785)
PRRT	—	—	—	—	—	(7,500)	—	—	(7,500)
Corporate income taxes	—	(7,287)	(10,798)	—	—	(3,024)	—	(297)	(21,406)
Interest expense	—	—	—	—	—	—	—	(29,667)	(29,667)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(45,574)	(45,574)
Realized foreign exchange loss	—	—	—	—	—	—	—	(2,551)	(2,551)
Realized other income	—	—	—	—	—	—	—	431	431
Fund flows from operations	141,846	103,561	43,249	18,070	88,716	36,427	2,977	(84,376)	350,470

($M)	Canada	France	Netherlands	Germany	Ireland	Australia	USA	Corporate	Total
				Six Months Ended June 30, 2017					
Total assets	1,532,263	830,551	203,918	294,665	707,000	261,176	77,824	105,533	4,012,930
Drilling and development	78,056	37,459	7,685	1,232	(877)	12,596	16,694	—	152,845
Exploration and evaluation	—	139	—	—	—	—	—	1,780	1,919
Crude oil and condensate sales	98,957	123,225	868	10,993	—	83,048	5,971	—	323,062
NGL sales	12,989	—	—	—	—	—	157	—	13,146
Natural gas sales	47,197	—	45,020	23,142	81,319	—	106	—	196,784
Royalties	(17,304)	(11,567)	(715)	(2,596)	—	—	(1,759)	—	(33,941)
Revenue from external customers	141,839	111,658	45,173	31,539	81,319	83,048	4,475	—	499,051
Transportation	(8,047)	(6,718)	—	(3,440)	(2,457)	—	—	—	(20,662)
Operating	(36,017)	(23,522)	(9,733)	(10,674)	(8,902)	(25,675)	(672)	—	(115,195)
General and administration	(4,825)	(6,783)	(1,156)	(3,979)	(1,133)	(3,326)	(2,132)	(2,984)	(26,318)
PRRT	—	—	—	—	—	(11,902)	—	—	(11,902)
Corporate income taxes	—	(6,812)	(1,661)	—	—	(2,588)	—	(465)	(11,526)
Interest expense	—	—	—	—	—	—	—	(30,203)	(30,203)
Realized gain on derivative instruments	—	—	—	—	—	—	—	3,491	3,491
Realized foreign exchange gain	—	—	—	—	—	—	—	3,527	3,527
Realized other income	—	—	—	—	—	—	—	294	294
Fund flows from operations	92,950	67,823	32,623	13,446	68,827	39,557	1,671	(26,340)	290,557

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

	Three Months Ended		Six Months Ended	
($M)	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Fund flows from operations	192,990	147,123	350,470	290,557
Accretion	(7,819)	(6,748)	(14,973)	(13,130)
Depletion and depreciation	(140,045)	(126,269)	(261,604)	(241,678)
Unrealized (loss) gain on derivative instruments	(105,284)	23,283	(87,941)	103,148
Equity based compensation	(10,961)	(13,896)	(30,711)	(32,634)
Unrealized foreign exchange (loss) gain	(12,458)	38,616	(3,833)	34,098
Unrealized other expense	(199)	(210)	(394)	(240)
Deferred tax	23,552	(13,635)	13,901	(47,317)
Net (loss) earnings	(60,224)	48,264	(35,085)	92,804

4. Business combinations

Private Producer in Southeast Saskatchewan and Southwest Manitoba

On February 15, 2018, Vermilion acquired 100% of the issued and outstanding common shares of a private producer with assets in southeast Saskatchewan and southwest Manitoba. The acquisition comprised of light oil producing fields near Vermilion's existing operations in southeast Saskatchewan. The acquisition complements Vermilion's existing southeast Saskatchewan operations and aligns with the Company's sustainable growth-and-income model. The acquisition was funded through Vermilion's revolving credit facility.

The total consideration paid and the provisional estimates of the fair value of the assets acquired and liabilities assumed at the date of acquisition are detailed in the table below. Subsequent amendments may be made to these amounts as estimates are finalized.

($M)	Consideration
Cash paid to vendor	53,288
Total consideration	53,288

($M)	Allocation of consideration
Acquired working capital	1,577
Deferred tax assets	26,914
Capital assets	67,549
Long-term debt	(38,300)
Asset retirement obligations	(4,452)
Net assets acquired	53,288

For the six months ended June 30, 2018, the acquisition contributed revenues of $8.6 million, fund flows from operations of $6.1 million, and net earnings of $2.9 million. Had the acquisition occurred on January 1, 2018, revenues would have increased by $2.9 million, fund flows from operations would have increased by $2.2 million, and net earnings would have increased by $1.0 million for the six months ended June 30, 2018.

Spartan Energy Corp.

On May 28, 2018, Vermilion acquired 100% of the issued and outstanding common shares of Spartan Energy Corp., a publicly traded oil and gas producer with light oil producing properties in southeast Saskatchewan as well as other areas in Saskatchewan, Alberta, and Manitoba. The acquisition increases Vermilion's position in southeast Saskatchewan and aligns with the Company's sustainable growth-and-income model.

Consideration consisted of the issuance of 27.9 million Vermilion common shares valued at approximately $1.2 billion (based on the closing price per Vermilion common share of $44.30 on the Toronto Stock Exchange on May 28, 2018). Acquisition-related costs of $1.3 million were incurred in the six months ended June 30, 2018.

The total consideration paid and provisional estimates of the fair value of the assets acquired and liabilities assumed as at the date of the acquisition are detailed in the table below. Subsequent amendments may be made to these amounts as estimates are finalized.

($M)	Consideration
Shares issued for acquisition	1,235,221
Total consideration	1,235,221

($M)	Allocation of consideration
Deferred tax assets	123,813
Capital assets	1,399,452
Assumed working capital deficit	(25,638)
Long-term debt	(150,196)
Finance lease obligation	(20,061)
Asset retirement obligations	(92,149)
Net assets acquired	1,235,221

For the three months ended June 30, 2018, the acquisition contributed revenues of $40.0 million, fund flows from operations of $27.6 million, and net earnings of $9.7 million. Had the acquisition occurred on January 1, 2018, revenues would have increased by $182.4 million, fund flows from operations would have increased by $118.9 million, and net earnings would have increased by $35.0 million for the six months ended June 30, 2018.

Minor acquisitions

Vermilion completed minor acquisitions during the six months ended June 30, 2018 for total cash consideration of $59.5 million, in which $114.2 million of capital assets and $55.9 million of asset retirement obligations were recognized.

5. Capital assets

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

($M)	2018
Balance at January 1	3,337,965
Additions	201,665
Acquisitions	1,582,427
Changes in asset retirement obligations	(76,046)
Depletion and depreciation	(259,507)
Foreign exchange	38,259
Balance at June 30	4,824,763

6. Exploration and evaluation assets

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

($M)	2018
Balance at January 1	292,278
Additions	7,082
Changes in asset retirement obligations	262
Depreciation	(3,634)
Foreign exchange	1,250
Balance at June 30	297,238

7. Asset retirement obligations

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

($M)	2018
Balance at January 1	517,180
Additional obligations recognized	154,273
Changes in estimates	(68,994)
Obligations settled	(6,217)
Accretion	14,973
Changes in discount rates	(8,591)
Foreign exchange	4,780
Balance at June 30	607,404

8. Long-term debt

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

	As at	
($M)	Jun 30, 2018	Dec 31, 2017
Revolving credit facility	1,216,006	899,595
Senior unsecured notes	389,555	370,735
Long-term debt	1,605,561	1,270,330

The fair value of the revolving credit facility is equal to its carrying value due to the use of short-term borrowing instruments at market rates of interest. The fair value of the senior unsecured notes as at June 30, 2018 was $393.1 million.

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

($M)	2018
Balance at January 1	1,270,330
Borrowings on the revolving credit facility	123,166
Assumed on acquisitions [1]	188,496
Amortization of transaction costs and prepaid interest	800
Foreign exchange	22,769
Balance at June 30	1,605,561

[1] Pursuant to the acquisitions described in Financial Statement Note 4 (Business Combinations), Vermilion assumed the credit facilities of the acquired companies and immediately extinguished them following the respective acquisitions using proceeds from Vermilion's revolving credit facility.

Revolving credit facility

At June 30, 2018, Vermilion had in place a bank revolving credit facility maturing May 31, 2022 with the following terms:

	As at	
($M)	Jun 30, 2018	Dec 31, 2017
Total facility amount	1,600,000	1,400,000
Amount drawn	(1,216,006)	(899,595)
Letters of credit outstanding	(10,600)	(7,400)
Unutilized capacity	373,394	493,005

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 June 30, 2018, the revolving credit facility was subject to the following financial covenants:

		As at	
Financial covenant	Limit	Jun 30, 2018	Dec 31, 2017
Consolidated total debt to consolidated EBITDA	4.0	1.70	1.87
Consolidated total senior debt to consolidated EBITDA	3.5	1.30	1.30
Consolidated total senior debt to total capitalization	55%	29%	32%

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 “Finance lease obligation” (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.
- Total capitalization: Includes all amounts classified as “Shareholders’ equity” plus consolidated total debt as defined above.

As at June 30, 2018 and 2017, 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, at its option, redeem the notes prior to maturity as follows:

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

Year	Redemption price
2020	104.219%
2021	102.813%
2022	101.406%
2023 and thereafter	100.000%

9. Shareholders' capital

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

	2018	
Shareholders’ Capital	Shares ('000s)	Amount ($M)
Balance at January 1	122,119	2,650,706
Shares issued for acquisition	27,883	1,234,676
Shares issued for the Dividend Reinvestment Plan	932	39,616
Vesting of equity based awards	1,025	54,057
Shares issued for equity based compensation	220	9,044
Share-settled dividends on vested equity based awards	184	7,773
Balance at June 30	152,363	3,995,872

Dividends declared to shareholders for the six months ended June 30, 2018 were $177.6 million (2017 - $154.5 million).

Subsequent to the end of the period and prior to the condensed consolidated interim financial statements being authorized for issue, Vermilion declared dividends of $35.1 million or $0.23 per share.

10. Capital disclosures

Vermilion defines capital as net debt (long-term debt plus net working capital) and shareholders' capital. In managing capital, Vermilion reviews whether fund flows from operations is sufficient to fund capital expenditures, dividends, and asset retirement obligations.

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

	Three Months Ended		Six Months Ended	
($M except as indicated)	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Long-term debt	1,605,561	1,262,235	1,605,561	1,262,235
Current liabilities	501,604	247,768	501,604	247,768
Current assets	(319,562)	(195,237)	(319,562)	(195,237)
Net debt	1,787,603	1,314,766	1,787,603	1,314,766
Ratio of net debt to annualized fund flows from operations	2.3	2.2	2.6	2.3

11. Financial instruments

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)	Jun 30, 2018
Currency risk - Euro to Canadian dollar	
$0.01 increase in strength of the Canadian dollar against the Euro	(3,709)
$0.01 decrease in strength of the Canadian dollar against the Euro	3,709
Currency risk - US dollar to Canadian dollar	
$0.01 increase in strength of the Canadian dollar against the US $	2,262
$0.01 decrease in strength of the Canadian dollar against the US $	(2,262)
Commodity price risk - Crude oil	
US $5.00/bbl increase in crude oil price used to determine the fair value of derivatives	(30,045)
US $5.00/bbl decrease in crude oil price used to determine the fair value of derivatives	30,045
Commodity price risk - European natural gas	
€ 0.5/GJ increase in European natural gas price used to determine the fair value of derivatives	(48,669)
€ 0.5/GJ decrease in European natural gas price used to determine the fair value of derivatives	45,284

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Larry J. Macdonald [2, 4, 6, 8]
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Calgary, Alberta

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Anthony Marino
Calgary, Alberta

Robert Michaleski [4, 5]
Calgary, Alberta

William Roby [8, 9]
Katy, Texas

Catherine L. Williams [3, 6]
Calgary, Alberta

1 Chairman of the Board
2 Lead Director
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

ABBREVIATIONS

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

OFFICERS AND KEY PERSONNEL

CANADA

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President & Chief Executive Officer

Lars Glemser
Vice President & Chief Financial Officer

Mona Jasinski
Executive Vice President, People and Culture

Michael Kaluza
Executive Vice President & Chief Operating Officer

Dion Hatcher
Vice President Canada Business Unit

Terry Hergott
Vice President Marketing

Jenson Tan
Vice President Business Development

Daniel Goulet
Director Corporate HSE

Jeremy Kalanuk
Director Operations Accounting

Bryce Kremnica
Director Field Operations - Canada Business Unit

Kyle Preston
Director Investor Relations

Mike Prinz
Director Information Technology & Information Systems

Robert (Bob) J. Engbloom
Corporate Secretary

UNITED STATES
Scott Seatter
Managing Director - U.S. Business Unit

Timothy R. Morris
Director U.S. Business Development - U.S. Business Unit

EUROPE
Gerard Schut
Vice President European Operations

Sylvain Nothhelfer
Managing Director - France Business Unit

Sven Tummers
Managing Director - Netherlands Business Unit

Bill Liutkus
Managing Director - Germany Business Unit

Darcy Kerwin
Managing Director - Ireland Business Unit

Bryan Sralla
Managing Director - Central & Eastern Europe Business Unit

AUSTRALIA
Bruce D. Lake
Managing Director - Australia Business Unit

AUDITORS

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Calgary, Alberta

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Bank of Montreal

Canadian Imperial Bank of Commerce

National Bank of Canada

The Bank of Nova Scotia

Royal Bank of Canada

Alberta Treasury Branches

Bank of America N.A., Canada Branch

Citibank N.A., Canadian Branch - Citibank Canada

HSBC Bank Canada

JPMorgan Chase Bank, N.A., Toronto Branch

La Caisse Centrale Desjardins du Québec

Wells Fargo Bank N.A., Canadian Branch

Barclays Bank PLC

Canadian Western Bank

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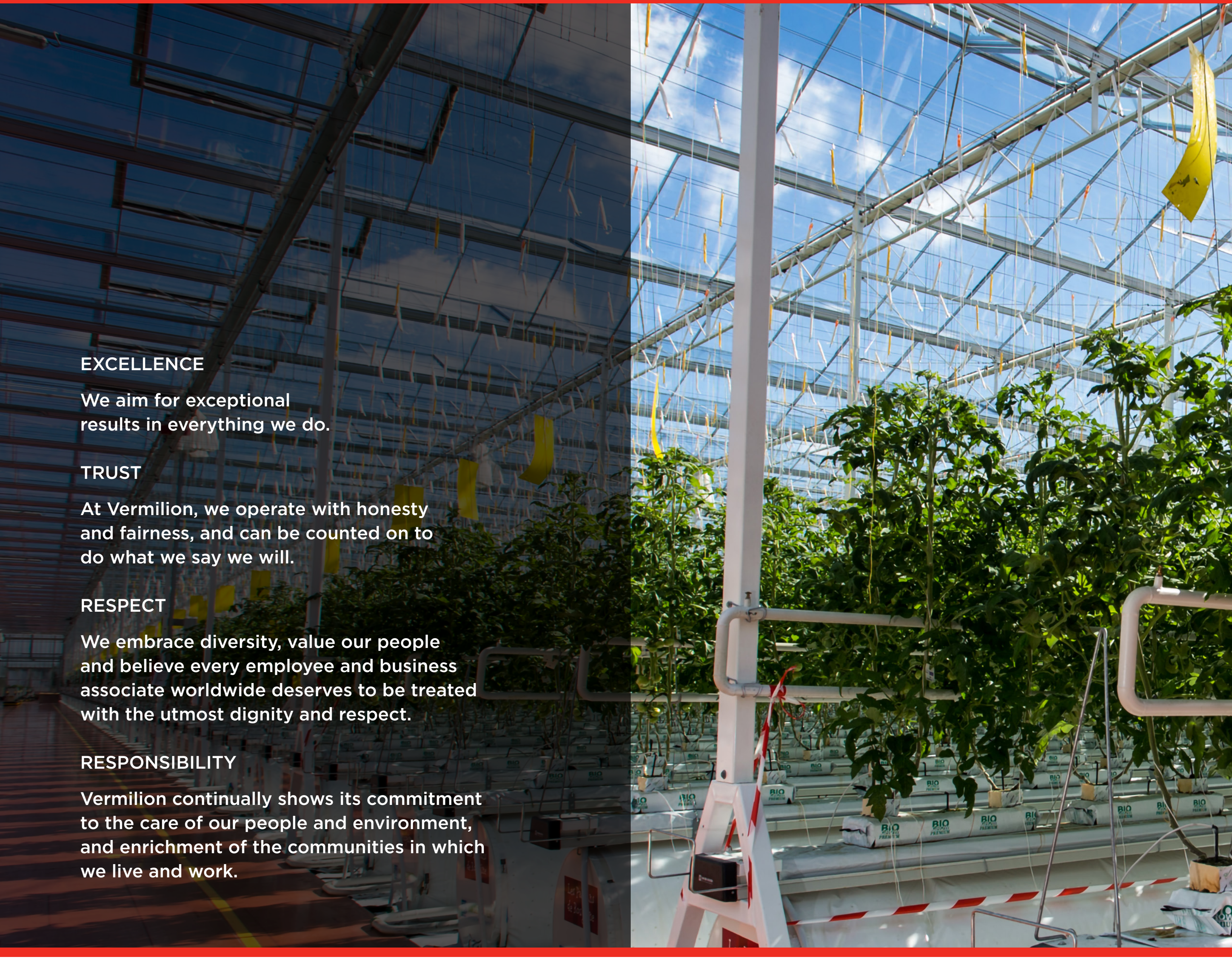

EXCELLENCE

We aim for exceptional results in everything we do.

TRUST

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

RESPECT

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

RESPONSIBILITY

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

VERMILION
ENERGY

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