

Q3 2019

# FINANCIAL STATEMENTS

EXCELLENCE. TRUST. RESPECT. RESPONSIBILITY.



INTERNATIONALLY DIVERSIFIED | SUSTAINABLE GROWTH AND INCOME

VERMILION  
E N E R G Y



## **FRONT COVER THEME**

As illustrated by the front cover photo of our operations in Germany, Vermilion's integration of sustainability throughout our business recognizes that we are part of a larger whole: the environments and communities in which we operate. We are therefore committed to conducting our activities in a manner that will protect the health and safety of both. This includes understanding our role in the evolving energy transition within the broader context of the United Nations Sustainable Development Goals ("SDGs"). We believe this approach, in which sustainability is embedded in our corporate strategy, supports Vermilion's long-term economic viability while building a better future for our stakeholders through enhanced economic, environmental and community wellbeing.



# 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", "project", 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.

This document contains metrics commonly used in the oil and gas industry. These oil and gas metrics do not have any standardized meaning or standard methods of calculation and therefore may not be comparable to similar measures presented by other companies where similar terminology is used and should therefore not be used to make comparisons. 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	September 30, 2019	December 31, 2018
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents		10,227	26,809
Accounts receivable		246,522	260,322
Crude oil inventory		16,150	27,751
Derivative instruments		46,387	95,667
Prepaid expenses		28,387	19,328
Total current assets		347,673	429,877
Derivative instruments		21,720	1,215
Deferred taxes		199,925	219,411
Exploration and evaluation assets	6	312,946	303,295
Capital assets	5	5,076,872	5,316,873
Total assets		5,959,136	6,270,671
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		310,560	449,651
Dividends payable	9	35,766	35,122
Derivative instruments		16,049	41,016
Income taxes payable		32,697	37,410
Total current liabilities		395,072	563,199
Derivative instruments		26,423	17,527
Long-term debt	8	1,954,471	1,796,207
Lease obligations		98,288	108,189
Asset retirement obligations	7	633,513	650,164
Deferred taxes		317,305	318,134
Total liabilities		3,425,072	3,453,420
<b>Shareholders' equity</b>			
Shareholders' capital	9	4,100,741	4,008,828
Contributed surplus		72,289	78,478
Accumulated other comprehensive income		45,545	118,182
Deficit		(1,684,511)	(1,388,237)
Total shareholders' equity		2,534,064	2,817,251
Total liabilities and shareholders' equity		5,959,136	6,270,671

### 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

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

		Three Months Ended		Nine Months Ended	
	Note	Sep 30, 2019	Sep 30, 2018	Sep 30, 2019	Sep 30, 2018
<b>Revenue</b>					
Petroleum and natural gas sales		391,935	508,411	1,301,061	1,221,178
Royalties		(41,490)	(53,786)	(122,987)	(108,293)
Sales of purchased commodities		41,449	—	146,323	—
<b>Petroleum and natural gas revenue</b>		<b>391,894</b>	<b>454,625</b>	<b>1,324,397</b>	<b>1,112,885</b>
<b>Expenses</b>					
Purchased commodities		41,449	—	146,323	—
Operating		105,192	97,758	329,495	244,544
Transportation		19,426	13,721	56,876	34,949
Equity based compensation		15,564	13,056	53,000	43,767
(Gain) loss on derivative instruments		(54,785)	113,194	(34,442)	246,709
Interest expense		19,661	19,772	62,208	51,932
General and administration		13,652	13,234	42,407	39,115
Foreign exchange loss (gain)		54,027	26,144	(7,410)	32,528
Other (income) expense		(25)	26	(6,826)	(11)
Accretion	7	8,701	8,041	24,834	23,014
Depletion and depreciation	5, 6	174,077	166,343	535,237	434,621
		396,939	471,289	1,201,702	1,151,168
<b>(Loss) earnings before income taxes</b>		<b>(5,045)</b>	<b>(16,664)</b>	<b>122,695</b>	<b>(38,283)</b>
<b>Taxes</b>					
Deferred		(5,169)	(10,712)	34,761	(24,613)
Current		10,353	9,147	56,612	38,053
		5,184	(1,565)	91,373	13,440
<b>Net (loss) earnings</b>		<b>(10,229)</b>	<b>(15,099)</b>	<b>31,322</b>	<b>(51,723)</b>
<b>Other comprehensive loss</b>					
Currency translation adjustments		(24,388)	(20,592)	(83,993)	(4,983)
Unrealized gains on derivatives designated as cash flow hedges	8	3,373	—	4,749	—
Unrealized gains on derivatives designated as net investment hedges	8	6,815	—	6,607	—
<b>Comprehensive loss</b>		<b>(24,429)</b>	<b>(35,691)</b>	<b>(41,315)</b>	<b>(56,706)</b>
<b>Net (loss) earnings per share</b>					
Basic		(0.07)	(0.10)	0.20	(0.38)
Diluted		(0.07)	(0.10)	0.20	(0.38)
<b>Weighted average shares outstanding ('000s)</b>					
Basic		155,254	152,432	154,326	136,585
Diluted		155,254	152,432	155,673	136,585

# Consolidated Statements of Cash Flows

thousands of Canadian dollars, unaudited

		Three Months Ended		Nine Months Ended	
	Note	Sep 30, 2019	Sep 30, 2018	Sep 30, 2019	Sep 30, 2018
<b>Operating</b>					
Net (loss) earnings		(10,229)	(15,099)	31,322	(51,723)
Adjustments:					
Accretion	7	8,701	8,041	24,834	23,014
Depletion and depreciation	5, 6	174,077	166,343	535,237	434,621
Unrealized (gain) loss on derivative instruments		(17,817)	75,829	27,065	163,770
Equity based compensation		15,564	13,056	53,000	43,767
Unrealized foreign exchange loss (gain)		50,679	23,044	(14,377)	26,877
Unrealized other expense		347	203	621	597
Deferred taxes		(5,169)	(10,712)	34,761	(24,613)
Asset retirement obligations settled	7	(3,586)	(2,986)	(12,090)	(9,203)
Changes in non-cash operating working capital		16,034	52,325	(77,454)	29,570
Cash flows from operating activities		228,601	310,044	602,919	636,677
<b>Investing</b>					
Drilling and development	5	(117,123)	(142,116)	(389,563)	(343,483)
Exploration and evaluation	6	(10,756)	(4,069)	(32,976)	(11,151)
Acquisitions	5	(4,657)	(193,677)	(29,307)	(307,622)
Changes in non-cash investing working capital		(31,476)	8,122	(49,846)	9,158
Cash flows used in investing activities		(164,012)	(331,740)	(501,692)	(653,098)
<b>Financing</b>					
Borrowings on the revolving credit facility	8	17,533	113,895	196,944	237,061
Payments on lease obligations		(9,337)	(5,441)	(20,525)	(13,679)
Cash dividends		(98,207)	(100,841)	(294,228)	(230,047)
Cash flows (used in) from financing activities		(90,011)	7,613	(117,809)	(6,665)
Foreign exchange gain (loss) on cash held in foreign currencies		585	(1,027)	—	519
Net change in cash and cash equivalents		(24,837)	(15,110)	(16,582)	(22,567)
Cash and cash equivalents, beginning of period		35,064	39,104	26,809	46,561
Cash and cash equivalents, end of period		10,227	23,994	10,227	23,994
Supplementary information for cash flows from operating activities					
Interest paid		25,455	24,914	68,410	56,084
Income taxes paid		14,753	1,505	61,325	35,631

## Consolidated Statements of Changes in Shareholders' Equity

thousands of Canadian dollars, unaudited

	Note	Nine Months Ended	
		September 30, 2019	September 30, 2018
<b>Shareholders' capital</b>	9		
Balance, beginning of period		4,008,828	2,650,706
Shares issued for acquisition		—	1,234,676
Shares issued for the Dividend Reinvestment Plan		24,737	43,936
Vesting of equity based awards		45,636	54,057
Equity based compensation		13,553	10,626
Share-settled dividends on vested equity based awards		7,987	7,773
Balance, end of period		4,100,741	4,001,774
<b>Contributed surplus</b>			
Balance, beginning of period		78,478	84,354
Equity based compensation		39,447	33,141
Vesting of equity based awards		(45,636)	(54,057)
Balance, end of period		72,289	63,438
<b>Accumulated other comprehensive income</b>			
Balance, beginning of period		118,182	71,829
Currency translation adjustments		(83,993)	(4,983)
Gains on derivatives designated as cash flow hedges	8	5,685	—
Amount reclassified from cash flow hedge reserve to net (loss) earnings		(936)	—
Gains on derivatives designated as net investment hedges	8	4,102	—
Amount reclassified from net investment hedge reserve to net (loss) earnings		2,505	—
Balance, end of period		45,545	66,846
<b>Deficit</b>			
Balance, beginning of period		(1,388,237)	(1,264,003)
Net loss (earnings)		31,322	(51,723)
Dividends declared	9	(319,609)	(282,801)
Share-settled dividends on vested equity based awards		(7,987)	(7,773)
Balance, end of period		(1,684,511)	(1,606,300)
<b>Total shareholders' equity</b>		<b>2,534,064</b>	<b>2,525,758</b>

# Notes to the Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2019 and 2018

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 Notes 2 and 3, 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, 2018.

These condensed consolidated interim financial statements should be read in conjunction with Vermilion's consolidated financial statements for the year ended December 31, 2018, which are contained within Vermilion's Annual Report for the year ended December 31, 2018 and are available on SEDAR at [www.sedar.com](http://www.sedar.com) or on Vermilion's website at [www.vermilionenergy.com](http://www.vermilionenergy.com).

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of Vermilion on October 30, 2019.

## 2. Significant accounting policies

On June 12, 2019, Vermilion entered into a series of cross currency interest rate swaps with a syndicate of banks. The details of these derivative instruments are disclosed in Note 8 (Long-term debt). Vermilion designated these derivative instruments as hedging instruments in qualifying hedging relationships. As such, effective June 12, 2019, Vermilion has adopted the following policies relating to hedge accounting.

### *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 that use financial instruments to manage exposures arising from specific risks that affect net earnings.

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 the inception of the hedge, formal designation and documentation is required of the hedging relationship and Vermilion's risk management objective and strategy for undertaking the hedge.

For cash flow hedges 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 a hedging relationship, which is expected to be immaterial, is immediately 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.

## 3. Changes in accounting pronouncements

### *Definition of a Business - Amendments to IFRS 3 "Business Combinations"*

Vermilion elected to early adopt the amendments to IFRS 3 "Business Combinations" effective January 1, 2019, which will be applied prospectively to acquisitions that occur on or after January 1, 2019. The amendments introduce an optional concentration test, narrow the definitions of a business and outputs, and clarify that an acquired set of activities and assets must include an input and a substantive process that together significantly contribute to the ability to create outputs. These amendments did not result in changes to Vermilion's accounting policies for applying the acquisition method.



## 4. Segmented information

	Three Months Ended September 30, 2019								Total
	Canada	France	Netherlands	Germany	Ireland	Australia	USA	Corporate	
Drilling and development	69,963	18,017	2,730	2,023	354	2,995	21,064	(23)	117,123
Exploration and evaluation	—	122	298	2,206	—	—	—	8,130	10,756
Crude oil and condensate sales	169,237	81,676	523	6,080	12	56,188	17,254	—	330,970
NGL sales	3,401	—	—	—	—	—	990	—	4,391
Natural gas sales	15,435	—	18,206	5,240	16,710	—	983	—	56,574
Sales of purchased commodities	—	—	—	—	—	—	—	41,449	41,449
Royalties	(23,909)	(11,476)	(279)	(952)	—	—	(4,874)	—	(41,490)
Revenue from external customers	164,164	70,200	18,450	10,368	16,722	56,188	14,353	41,449	391,894
Purchased commodities	—	—	—	—	—	—	—	(41,449)	(41,449)
Transportation	(10,404)	(6,183)	—	(1,709)	(1,130)	—	—	—	(19,426)
Operating	(57,851)	(15,098)	(6,396)	(6,433)	(3,136)	(11,876)	(4,400)	(2)	(105,192)
General and administration	(5,793)	(3,379)	(300)	(2,436)	(1,436)	(1,260)	(2,005)	2,957	(13,652)
PRRT	—	—	—	—	—	(5,826)	—	—	(5,826)
Corporate income taxes	—	(3,419)	(462)	—	—	(396)	—	(250)	(4,527)
Interest expense	—	—	—	—	—	—	—	(19,661)	(19,661)
Realized gain on derivative instruments	—	—	—	—	—	—	—	36,968	36,968
Realized foreign exchange loss	—	—	—	—	—	—	—	(3,348)	(3,348)
Realized other income	—	—	—	—	—	—	—	372	372
<b>Fund flows from operations</b>	<b>90,116</b>	<b>42,121</b>	<b>11,292</b>	<b>(210)</b>	<b>11,020</b>	<b>36,830</b>	<b>7,948</b>	<b>17,036</b>	<b>216,153</b>

	Three Months Ended September 30, 2018								Total
	Canada	France	Netherlands	Germany	Ireland	Australia	USA	Corporate	
Drilling and development	89,837	15,682	5,148	4,271	(50)	16,061	11,386	(219)	142,116
Exploration and evaluation	—	97	(92)	2,226	—	—	—	1,838	4,069
Crude oil and condensate sales	209,219	100,840	634	7,898	—	35,848	11,740	—	366,179
NGL sales	15,680	—	—	—	—	—	1,919	—	17,599
Natural gas sales	18,117	—	41,159	13,154	50,228	—	892	1,083	124,633
Royalties	(33,801)	(12,765)	(1,049)	(2,448)	—	—	(3,444)	(279)	(53,786)
Revenue from external customers	209,215	88,075	40,744	18,604	50,228	35,848	11,107	804	454,625
Transportation	(9,057)	(2,013)	—	(1,191)	(1,460)	—	—	—	(13,721)
Operating	(55,577)	(13,733)	(5,812)	(4,863)	(3,354)	(11,585)	(2,633)	(201)	(97,758)
General and administration	(1,316)	(3,365)	(320)	(2,073)	(3,597)	(1,020)	(2,397)	854	(13,234)
PRRT	—	—	—	—	—	254	—	—	254
Corporate income taxes	—	(6,913)	1,729	—	—	(3,355)	—	(862)	(9,401)
Interest expense	—	—	—	—	—	—	—	(19,772)	(19,772)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(37,365)	(37,365)
Realized foreign exchange loss	—	—	—	—	—	—	—	(3,100)	(3,100)
Realized other income	—	—	—	—	—	—	—	177	177
<b>Fund flows from operations</b>	<b>143,265</b>	<b>62,051</b>	<b>36,341</b>	<b>10,477</b>	<b>41,817</b>	<b>20,142</b>	<b>6,077</b>	<b>(59,465)</b>	<b>260,705</b>

	Nine Months Ended September 30, 2019								
	Canada	France	Netherlands	Germany	Ireland	Australia	USA	Corporate	Total
Total assets	3,096,572	847,956	226,687	268,862	554,724	220,312	428,774	315,249	5,959,136
Drilling and development	227,101	65,772	13,295	4,451	449	24,098	54,064	333	389,563
Exploration and evaluation	—	124	659	12,056	—	—	—	20,137	32,976
Crude oil and condensate sales	532,245	248,797	1,803	21,292	16	162,618	44,068	—	1,010,839
NGL sales	24,375	—	—	—	—	—	4,299	—	28,674
Natural gas sales	64,553	121	85,839	24,489	82,434	—	4,112	—	261,548
Sales of purchased commodities	—	—	—	—	—	—	—	146,323	146,323
Royalties	(69,951)	(33,630)	(1,339)	(4,677)	—	—	(13,390)	—	(122,987)
Revenue from external customers	551,222	215,288	86,303	41,104	82,450	162,618	39,089	146,323	1,324,397
Purchased commodities	—	—	—	—	—	—	—	(146,323)	(146,323)
Transportation	(30,877)	(18,394)	—	(4,154)	(3,451)	—	—	—	(56,876)
Operating	(181,859)	(45,139)	(22,367)	(17,565)	(9,577)	(41,372)	(11,374)	(242)	(329,495)
General and administration	(15,917)	(10,585)	(1,896)	(6,495)	(2,007)	(3,463)	(5,467)	3,423	(42,407)
PRRT	—	—	—	—	—	(24,494)	—	—	(24,494)
Corporate income taxes	—	(16,465)	(7,237)	—	—	(7,912)	—	(504)	(32,118)
Interest expense	—	—	—	—	—	—	—	(62,208)	(62,208)
Realized gain on derivative instruments	—	—	—	—	—	—	—	61,507	61,507
Realized foreign exchange loss	—	—	—	—	—	—	—	(6,967)	(6,967)
Realized other income	—	—	—	—	—	—	—	7,447	7,447
<b>Fund flows from operations</b>	<b>322,569</b>	<b>124,705</b>	<b>54,803</b>	<b>12,890</b>	<b>67,415</b>	<b>85,377</b>	<b>22,248</b>	<b>2,456</b>	<b>692,463</b>

	Nine Months Ended September 30, 2018								
	Canada	France	Netherlands	Germany	Ireland	Australia	USA	Corporate	Total
Total assets	3,107,386	864,425	199,212	284,368	575,195	227,055	327,353	333,636	5,918,630
Drilling and development	187,646	62,581	15,671	7,776	84	31,878	37,956	(109)	343,483
Exploration and evaluation	—	169	(642)	3,450	—	—	—	8,174	11,151
Crude oil and condensate sales	394,897	274,713	1,741	25,962	—	111,382	20,690	—	829,385
NGL sales	40,544	—	—	—	—	—	2,160	—	42,704
Natural gas sales	49,423	—	111,238	34,590	151,765	—	990	1,083	349,089
Royalties	(59,112)	(34,805)	(2,644)	(5,436)	—	—	(6,017)	(279)	(108,293)
Revenue from external customers	425,752	239,908	110,335	55,116	151,765	111,382	17,823	804	1,112,885
Transportation	(18,783)	(7,184)	—	(4,968)	(4,014)	—	—	—	(34,949)
Operating	(115,435)	(40,675)	(19,916)	(16,433)	(10,869)	(37,442)	(3,573)	(201)	(244,544)
General and administration	(3,907)	(10,378)	(1,238)	(5,093)	(6,349)	(3,527)	(4,910)	(3,713)	(39,115)
PRRT	—	—	—	—	—	(7,246)	—	—	(7,246)
Corporate income taxes	—	(14,200)	(9,069)	—	—	(6,379)	—	(1,159)	(30,807)
Interest expense	—	—	—	—	—	—	—	(51,932)	(51,932)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(82,939)	(82,939)
Realized foreign exchange loss	—	—	—	—	—	—	—	(5,651)	(5,651)
Realized other income	—	—	—	—	—	—	—	608	608
<b>Fund flows from operations</b>	<b>287,627</b>	<b>167,471</b>	<b>80,112</b>	<b>28,622</b>	<b>130,533</b>	<b>56,788</b>	<b>9,340</b>	<b>(144,183)</b>	<b>616,310</b>

*Reconciliation of fund flows from operations to net earnings:*

	Three Months Ended		Nine Months Ended	
	Sep 30, 2019	Sep 30, 2018	Sep 30, 2019	Sep 30, 2018
Fund flows from operations	216,153	260,705	692,463	616,310
Accretion	(8,701)	(8,041)	(24,834)	(23,014)
Depletion and depreciation	(174,077)	(166,343)	(535,237)	(434,621)
Unrealized gain (loss) on derivative instruments	17,817	(75,829)	(27,065)	(163,770)
Equity based compensation	(15,564)	(13,056)	(53,000)	(43,767)
Unrealized foreign exchange (loss) gain	(50,679)	(23,044)	14,377	(26,877)
Unrealized other expense	(347)	(203)	(621)	(597)
Deferred tax	5,169	10,712	(34,761)	24,613
<b>Net (loss) earnings</b>	<b>(10,229)</b>	<b>(15,099)</b>	<b>31,322</b>	<b>(51,723)</b>

## 5. Capital assets

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

	2019
<b>Balance at January 1</b>	<b>5,316,873</b>
Acquisitions	29,307
Additions	389,563
Increase in right-of-use assets	12,201
Transfers from exploration and evaluation assets	1,039
Depletion and depreciation	(518,354)
Changes in asset retirement obligations	10,743
Foreign exchange	(164,500)
<b>Balance at September 30</b>	<b>5,076,872</b>

### Q3 2019 impairment assessment

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

Due to a decrease in the European natural gas price forecast issued by GLJ and the resulting reduction in forecast revenues in our Ireland segment, Vermilion estimated the recoverable amount of our Ireland CGU. The recoverable amount, based on fair value less costs of disposal, was estimated using a 9% after-tax discount rate derived from proved plus probable reserve estimates.

The following commodity price estimates, as issued by GLJ Petroleum Consultants effective October 1, 2019, were applied:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
NBP (€/mmbtu)	5.80	5.95	6.09	6.30	6.52	6.74	6.74	6.74	6.74	6.87

Based on the above assumptions, the estimated recoverable amount exceeded the carrying value of our Ireland CGU. As such, no impairment was recorded in the three and nine months ended September 30, 2019.

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. As at September 30, 2019, a 1% increase in the assumed after-tax discount rate would reduce the estimated recoverable amount by \$17.4 million (resulting in a \$0.1 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 by \$19.2 million (resulting in a \$1.9 million impairment).

## 6. Exploration and evaluation assets

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

	2019
<b>Balance at January 1</b>	<b>303,295</b>
Additions	32,976
Changes in asset retirement obligations	53
Transfers to capital assets	(1,039)
Depreciation	(13,967)
Foreign exchange	(8,372)
<b>Balance at September 30</b>	<b>312,946</b>

## 7. Asset retirement obligations

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

	2019
<b>Balance at January 1</b>	<b>650,164</b>
Additional obligations recognized	577
Changes in estimated abandonment timing and costs	(137)
Obligations settled	(12,090)
Accretion	24,834
Changes in discount rates	10,356
Foreign exchange	(40,191)
<b>Balance at September 30</b>	<b>633,513</b>

## 8. Long-term debt

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

	As at	
	Sep 30, 2019	Dec 31, 2018
Revolving credit facility	1,561,669	1,392,206
Senior unsecured notes	392,802	404,001
<b>Long-term debt</b>	<b>1,954,471</b>	<b>1,796,207</b>

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 September 30, 2019 was \$382.7 million.

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

	2019
<b>Balance at January 1</b>	<b>1,796,207</b>
Borrowings on the revolving credit facility	196,944
Amortization of transaction costs and prepaid interest	150
Foreign exchange	(38,830)
<b>Balance at September 30</b>	<b>1,954,471</b>

### *Revolving credit facility*

At September 30, 2019, Vermilion had in place a bank revolving credit facility maturing May 31, 2023 with the following terms:



	As at	
	Sep 30, 2019	Dec 31, 2018
Total facility amount	2,100,000	1,800,000
Amount drawn	(1,561,669)	(1,392,206)
Letters of credit outstanding	(10,600)	(15,400)
<b>Unutilized capacity</b>	<b>527,731</b>	<b>392,394</b>

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 September 30, 2019, the revolving credit facility was subject to the following financial covenants:

Financial covenant	Limit	As at	
		Sep 30, 2019	Dec 31, 2018
Consolidated total debt to consolidated EBITDA	Less than 4.0	1.90	1.72
Consolidated total senior debt to consolidated EBITDA	Less than 3.5	1.52	1.34
Consolidated EBITDA to consolidated interest expense	Greater than 2.5	13.36	14.57

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 excluding interest on operating leases as defined under IAS 17.

As at September 30, 2019 and 2018, 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%

### *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 mature March 15, 2025 and include regular cash receipts and payments on March 15 and September 15 of each year. On a net basis, the cross currency interest swaps result in Vermilion receiving US dollar interest and principal amounts equal to the interest and principal payments under the US \$300.0 million of senior unsecured notes. In exchange, Vermilion will make interest and principal payments equal to €265.0 million at a rate of 3.275%.

The cross currency interest rate swaps were executed as two separate sets of instruments:

- US dollar to Canadian dollar ("USD-to-CAD") cross currency interest rate swaps: Vermilion receives US dollar interest and principal amounts equal to US\$300.0 million of debt at 5.625% interest and pays Canadian dollar interest and principal amounts equal to \$398.5 million of debt at 5.40% interest.
- Canadian dollar to Euro ("CAD-to-EUR") cross currency interest rate swaps: Vermilion receives Canadian dollar interest and principal amounts equal to \$398.5 million of debt at 5.40% interest and pays Euro interest and principal amounts equal to €265.0 million at a rate of 3.275%.

The USD-to-CAD cross currency interest swaps have been designated as the hedging instrument in a cash flow hedge to mitigate the risk of the fluctuation of interest and principal cash flows due to changes in foreign currency rates related to the Senior Unsecured Notes described above. The forward element of the swap contract is treated as the excluded component and is initially recognized within other comprehensive income. The excluded component is amortized to net earnings in interest expense on a systematic basis. As the timing and amount of the cash flows received on the USD-to-CAD cross currency interest rate swaps offset the timing and amount of the cash flows paid on the senior unsecured notes, the economic relationship is expected to be highly effective. The change in the value of the hedged item associated with a change in spot foreign exchange rates is initially recognized in other comprehensive income. This change is reclassified from other comprehensive income to net earnings (and recorded as an foreign exchange gain or loss) to offset the associated foreign exchange gain or loss recognized on the senior unsecured notes.

The CAD-to-EUR cross currency interest rate swaps have been designated as the hedging instrument in a net investment hedge to mitigate the effective change in exchange rates on our net investments in Euro denominated foreign subsidiaries. The change in the value of the hedged item associated with a change in spot foreign exchange rates is initially recognized in other comprehensive income. This change is reclassified from other comprehensive income to net earnings (and recorded as a foreign exchange gain or loss) only if the net investment is disposed of by sale. The forward element of the swap contract is treated as the excluded component and is initially recognized within other comprehensive income. The excluded component is amortized to net earnings in interest expense on a systematic basis.

## **9. Shareholders' capital**

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

Shareholders' Capital	2019	
	Shares ('000s)	Amount
<b>Balance at January 1</b>	<b>152,704</b>	<b>4,008,828</b>
Shares issued for the Dividend Reinvestment Plan	898	24,737
Vesting of equity based awards	1,223	45,636
Shares issued for equity based compensation	437	13,553
Share-settled dividends on vested equity based awards	243	7,987
<b>Balance at September 30</b>	<b>155,505</b>	<b>4,100,741</b>

Dividends declared to shareholders for the nine months ended September 30, 2019 were \$319.6 million (2018 - \$282.8 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 \$35.8 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 trailing twelve month fund flows from operations:

	Sep 30, 2019	Sep 30, 2018
Long-term debt	1,954,471	1,728,889
Current liabilities	398,233	629,893
Current assets	(350,834)	(324,696)
<b>Net debt</b>	<b>2,001,870</b>	<b>2,034,086</b>
<b>Ratio of net debt to trailing twelve months fund flows from operations</b>	<b>2.19</b>	<b>2.55</b>

## 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.

	Sep 30, 2019
<b>Currency risk - Euro to Canadian dollar</b>	
\$0.01 increase in strength of the Canadian dollar against the Euro	(2,008)
\$0.01 decrease in strength of the Canadian dollar against the Euro	2,008
<b>Currency risk - US dollar to Canadian dollar</b>	
\$0.01 increase in strength of the Canadian dollar against the US \$	104
\$0.01 decrease in strength of the Canadian dollar against the US \$	(104)
<b>Commodity price risk - Crude oil</b>	
US \$5.00/bbl increase in crude oil price used to determine the fair value of derivatives	(26,206)
US \$5.00/bbl decrease in crude oil price used to determine the fair value of derivatives	36,814
<b>Commodity price risk - European natural gas</b>	
€0.5/GJ increase in European natural gas price used to determine the fair value of derivatives	(27,826)
€0.5/GJ decrease in European natural gas price used to determine the fair value of derivatives	32,167

## DIRECTORS

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

Larry J. Macdonald <sup>2, 4, 6, 8</sup>  
Chairman & CEO, Point Energy Ltd.  
Calgary, Alberta

Carin Knickel <sup>6, 8, 12</sup>  
Golden, Colorado

Stephen P. Larke <sup>4, 6, 12</sup>  
Calgary, Alberta

Loren M. Leiker <sup>10</sup>  
McKinney, Texas

Timothy R. Marchant <sup>7, 10, 11</sup>  
Calgary, Alberta

Anthony Marino  
Calgary, Alberta

Robert Michaleski <sup>4, 5</sup>  
Calgary, Alberta

William Roby <sup>8, 9, 12</sup>  
Katy, Texas

Catherine L. Williams <sup>3, 6</sup>  
Calgary, Alberta

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

<sup>2</sup> Lead Director

<sup>3</sup> Audit Committee Chair (Independent)

<sup>4</sup> Audit Committee Member

<sup>5</sup> Governance and Human Resources Committee Chair (Independent)

<sup>6</sup> Governance and Human Resources Committee Member

<sup>7</sup> Health, Safety and Environment Committee Chair (Independent)

<sup>8</sup> Health, Safety and Environment Committee Member

<sup>9</sup> Independent Reserves Committee Chair (Independent)

<sup>10</sup> Independent Reserves Committee Member

<sup>11</sup> Sustainability Committee Chair (Independent)

<sup>12</sup> Sustainability Committee Member

## OFFICERS AND KEY PERSONNEL CANADA

Anthony Marino  
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

Kyle Preston  
Vice President Investor Relations

Jenson Tan  
Vice President Business Development

Daniel Goulet  
Director Corporate HSE

Jeremy Kalanuk  
Director Operations Accounting

Bryce Kremnica  
Director Field Operations - Canada Business Unit

Steve Reece  
Director Information Technology & Information Systems

Tom Rafter  
Director Land - Canada Business Unit

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

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

HSBC Bank Canada

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

Barclays Bank PLC

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GLJ Petroleum Consultants Ltd.  
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## LEGAL COUNSEL

Norton Rose Fulbright Canada LLP  
Calgary, Alberta

## TRANSFER AGENT

Computershare Trust Company of Canada

## STOCK EXCHANGE LISTINGS

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

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## EXCELLENCE

We aim for exceptional results in everything we do.

## TRUST

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

## RESPECT

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

## RESPONSIBILITY

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

**VERMILION**  
**E N E R G Y**



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