

Q2 2023

FINANCIAL STATEMENTS

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INTERNATIONALLY DIVERSIFIED | FREE CASH FLOW FOCUSED

VERMILION
ENERGY



Disclaimer

Certain statements included or incorporated by reference in this document may constitute forward-looking statements or information 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; statements regarding the return of capital; the flexibility of Vermilion's capital program and operations; business strategies and objectives; operational and financial performance; petroleum and natural gas sales; future production levels and the timing thereof, including Vermilion's 2023 guidance, and rates of average annual production growth; the effect of changes in crude oil and natural gas prices, changes in exchange and inflation rates; 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, wells expected to be drilled in 2023; exploration and development plans and the timing thereof; Vermilion's ability to reduce its debt; 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, interest rates and inflation; 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 or involving Vermilion; and other risks and uncertainties described elsewhere in this document or in Vermilion's other filings with Canadian securities regulatory authorities.

This document contains references to sustainability/ESG data and performance that reflect metrics and concepts that are commonly used in such frameworks as the Global Reporting Initiative, the Task Force on Climate-related Financial Disclosures, and the Sustainability Accounting Standards Board. Vermilion has used best efforts to align with the most commonly accepted methodologies for ESG reporting, including with respect to climate data and information on potential future risks and opportunities, in order to provide a fuller context for our current and future operations. However, these methodologies are not yet standardized, are frequently based on calculation factors that change over time, and continue to evolve rapidly. Readers are particularly cautioned to evaluate the underlying definitions and measures used by other companies, as these may not be comparable to Vermilion's. While Vermilion will continue to monitor and adapt its reporting accordingly, the Company is not under any duty to update or revise the related sustainability/ESG data or statements except as required by applicable securities laws.

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	June 30, 2023	December 31, 2022
Assets			
Current			
Cash and cash equivalents	12	50,700	13,836
Accounts receivable		287,898	373,651
Crude oil inventory		21,346	19,657
Derivative instruments		326,143	162,843
Prepaid expenses		57,428	144,459
Total current assets		743,515	714,446
Derivative instruments		13,628	132,598
Investment in securities	4	58,625	56,366
Deferred taxes		128,786	125,533
Exploration and evaluation assets	6	237,792	270,593
Capital assets	2, 5	5,997,642	5,691,522
Total assets		7,179,988	6,991,058
Liabilities			
Current			
Accounts payable and accrued liabilities		428,520	481,444
Dividends payable	10	16,430	13,058
Derivative instruments		25,012	55,845
Income taxes payable		400,796	341,698
Total current liabilities		870,758	892,045
Derivative instruments		22,474	—
Long-term debt	9	913,785	1,081,351
Lease obligations		40,911	51,507
Asset retirement obligations	7	1,033,262	1,087,757
Deferred taxes		475,762	477,340
Total liabilities		3,356,952	3,590,000
Shareholders' Equity			
Shareholders' capital	10	4,198,188	4,243,794
Contributed surplus		32,477	35,409
Accumulated other comprehensive income		95,833	123,505
Deficit		(503,462)	(1,001,650)
Total shareholders' equity		3,823,036	3,401,058
Total liabilities and shareholders' equity		7,179,988	6,991,058

Approved by the Board

(Signed "Manjit Sharma")

Manjit Sharma, Director

(Signed "Dion Hatcher")

Dion Hatcher, Director

Consolidated Statements of Net Earnings and Comprehensive Income

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

	Note	Three Months Ended		Six Months Ended	
		June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Revenue					
Petroleum and natural gas sales		471,356	858,844	1,024,054	1,669,023
Royalties		(46,993)	(83,553)	(114,337)	(154,860)
Sales of purchased commodities		38,278	63,429	87,290	111,159
Petroleum and natural gas revenue		462,641	838,720	997,007	1,625,322
Expenses					
Purchased commodities		38,278	63,429	87,290	111,159
Operating		136,749	114,617	273,574	226,800
Transportation		21,905	20,153	44,955	37,422
Equity based compensation		4,998	7,499	28,523	32,868
(Gain) loss on derivative instruments		(78,850)	(88,280)	(185,878)	276,737
Interest expense		20,210	21,074	42,085	35,897
General and administration		20,058	15,691	39,947	29,911
Foreign exchange (gain) loss		(38,803)	34,564	(18,554)	(6,323)
Other income		(3,488)	(2,174)	(6,547)	(7,322)
Accretion	7	18,599	13,746	38,650	27,384
Depletion and depreciation	5, 6	154,389	140,763	302,520	275,003
Impairment reversal	5	—	—	—	(192,094)
Gain on business combination	3	(12,544)	—	(445,094)	—
Loss on disposition	5	—	—	226,828	—
		281,501	341,082	428,299	847,442
Earnings before income taxes		181,140	497,638	568,708	777,880
Income tax (recovery) expense					
Deferred		(480)	63,497	(36,946)	7,404
Current		18,928	71,520	41,190	123,901
Windfall taxes		34,784	—	56,224	—
		53,232	135,017	60,468	131,305
Net earnings		127,908	362,621	508,240	646,575
Other comprehensive income					
Currency translation adjustments		(56,293)	(27,800)	(31,612)	(66,619)
Hedge accounting reserve, net of tax		1,634	1,632	3,789	3,264
Fair value adjustment on investment in securities	4	5,884	18,944	151	18,944
Comprehensive income		79,133	355,397	480,568	602,164
Net earnings per share					
Basic		0.78	2.20	3.10	3.96
Diluted		0.76	2.14	3.04	3.84
Weighted average shares outstanding ('000s)					
Basic		164,997	164,518	163,798	163,452
Diluted		167,364	169,169	167,343	168,517

Consolidated Statements of Cash Flows

thousands of Canadian dollars, unaudited

	Note	Three Months Ended		Six Months Ended	
		June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Operating					
Net earnings		127,908	362,621	508,240	646,575
Adjustments:					
Accretion	7	18,599	13,746	38,650	27,384
Depletion and depreciation	5, 6	154,389	140,763	302,520	275,003
Impairment reversal	5	—	—	—	(192,094)
Gain on business combination	3	(12,544)	—	(445,094)	—
Loss on disposition	5	—	—	226,828	—
Unrealized (gain) loss on derivative instruments		(11,177)	(168,058)	(103,875)	52,736
Equity based compensation		4,998	7,499	28,523	32,868
Unrealized foreign exchange (gain) loss		(35,124)	32,267	(19,646)	(7,870)
Unrealized other expense		540	566	1,076	763
Deferred tax recovery		(480)	63,497	(36,946)	7,404
Asset retirement obligations settled	7	(11,893)	(4,300)	(14,447)	(10,620)
Changes in non-cash operating working capital		(61,584)	81,763	76,432	39,268
Cash flows from operating activities		173,632	530,364	562,261	871,417
Investing					
Drilling and development	5	(164,070)	(109,488)	(317,398)	(192,329)
Exploration and evaluation	6	(2,775)	(3,665)	(4,267)	(6,168)
Acquisitions, net of cash acquired	5	(2,196)	(497,800)	(136,421)	(504,512)
Acquisition of securities	4	(632)	(18,301)	(2,108)	(18,301)
Dispositions	5	—	—	182,152	—
Changes in non-cash investing working capital		5,269	16,620	4,943	(1,654)
Cash flows used in investing activities		(164,404)	(612,634)	(273,099)	(722,964)
Financing					
Repayments on the revolving credit facility	9	—	(406,491)	(146,591)	(633,100)
Issuance of senior unsecured notes	9	—	499,037	—	499,037
Payments on lease obligations		(4,665)	(4,310)	(9,064)	(9,081)
Repurchase of shares	10	(24,316)	—	(54,457)	—
Cash dividends	10	(16,226)	(9,727)	(29,284)	(9,727)
Cash flows (used in) from financing activities		(45,207)	78,509	(239,396)	(152,871)
Foreign exchange loss on cash held in foreign currencies		(13,165)	(108)	(12,902)	(935)
Net change in cash and cash equivalents		(49,144)	(3,869)	36,864	(5,353)
Cash and cash equivalents, beginning of period		99,844	4,544	13,836	6,028
Cash and cash equivalents, end of period		50,700	675	50,700	675
Supplementary information for cash flows from operating activities					
Interest paid		25,374	10,684	42,645	30,025
Income taxes paid		138,469	29,450	152,776	24,191

Consolidated Statements of Changes in Shareholders' Equity

thousands of Canadian dollars, unaudited

	Note	Six Months Ended	
		June 30, 2023	June 30, 2022
Shareholders' capital	10		
Balance, beginning of period		4,243,794	4,241,773
Vesting of equity based awards		21,175	41,193
Equity based compensation		10,280	13,123
Share-settled dividends on vested equity based awards		1,051	4,185
Repurchase of shares		(78,112)	—
Balance, end of period		4,198,188	4,300,274
Contributed surplus	10		
Balance, beginning of period		35,409	49,529
Equity based compensation		18,243	19,745
Vesting of equity based awards		(21,175)	(41,193)
Balance, end of period		32,477	28,081
Accumulated other comprehensive income			
Balance, beginning of period		123,505	28,467
Currency translation adjustments		(31,612)	(66,619)
Hedge accounting reserve, net of tax		3,789	3,264
Fair value adjustment on investment in securities, net of tax	4	151	18,944
Balance, end of period		95,833	(15,944)
Deficit			
Balance, beginning of period		(1,001,650)	(2,253,624)
Net earnings		508,240	646,575
Dividends declared		(32,656)	(19,680)
Share-settled dividends on vested equity based awards		(1,051)	(4,185)
Repurchase of shares	10	23,655	—
Balance, end of period		(503,462)	(1,630,914)
Total shareholders' equity		3,823,036	2,681,497

Description of equity reserves

Shareholders' capital

Represents the recognized amount for common shares issued (net of equity issuance costs and deferred taxes) less the weighted-average carrying value of shares repurchased. The price paid to repurchase common shares is compared to the carrying value of the shares and the difference is recorded against deficit.

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, hedge accounting reserve and fair value adjustments on investments.

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.

Fair value adjustment on investment in securities, net of tax, are a result of changes in the fair value of investments that have been elected to be subsequently measured at fair value through other comprehensive income.

Deficit

Represents the cumulative net earnings less distributed earnings and surplus of the price paid to repurchase common shares of Vermilion Energy Inc. over the weighted-average carrying value of the shares repurchased.

Notes to the Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2023 and 2022

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”. 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, 2022.

These condensed consolidated interim financial statements should be read in conjunction with Vermilion’s consolidated financial statements for the year ended December 31, 2022, which are contained within Vermilion’s Annual Report for the year ended December 31, 2022 and are available on SEDAR+ at www.sedarplus.ca 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 August 2, 2023.

2. Segmented information

	Three Months Ended June 30, 2023								
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Drilling and development	73,471	62,252	11,326	5,815	5,220	(619)	5,470	1,135	164,070
Exploration and evaluation	—	—	—	—	2,633	—	—	142	2,775
Crude oil and condensate sales	141,027	29,547	79,718	398	13,817	30	—	—	264,537
NGL sales	13,207	3,517	—	—	—	—	—	—	16,724
Natural gas sales	33,555	1,127	—	37,858	28,436	88,659	—	460	190,095
Sales of purchased commodities	—	—	—	—	—	—	—	38,278	38,278
Royalties	(18,000)	(8,824)	(10,833)	(6,653)	(2,496)	—	—	(187)	(46,993)
Revenue from external customers	169,789	25,367	68,885	31,603	39,757	88,689	—	38,551	462,641
Purchased commodities	—	—	—	—	—	—	—	(38,278)	(38,278)
Transportation	(7,639)	(65)	(8,215)	—	(3,409)	(2,577)	—	—	(21,905)
Operating	(53,430)	(6,686)	(24,756)	(13,691)	(10,953)	(10,526)	(16,415)	(292)	(136,749)
General and administration	(21,925)	(1,273)	(7,848)	996	(4,643)	(4,763)	(2,583)	21,981	(20,058)
PRRT	—	—	—	—	—	—	—	—	—
Corporate income taxes	1	—	(1,805)	(5,818)	(9,690)	(227)	(886)	(503)	(18,928)
Windfall taxes	—	—	—	—	—	—	—	(34,784)	(34,784)
Interest expense	—	—	—	—	—	—	—	(20,210)	(20,210)
Realized gain on derivative instruments	—	—	—	—	—	—	—	67,673	67,673
Realized foreign exchange gain	—	—	—	—	—	—	—	3,679	3,679
Realized other income	—	—	—	—	—	—	—	4,028	4,028
Fund flows from operations	86,796	17,343	26,261	13,090	11,062	70,596	(19,884)	41,845	247,109

	Three Months Ended June 30, 2022								
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Drilling and development	30,849	24,064	11,911	865	3,170	656	37,825	148	109,488
Exploration and evaluation	—	—	2	504	404	—	—	2,755	3,665
Crude oil and condensate sales	267,414	36,637	103,798	610	15,056	—	36,966	—	460,481
NGL sales	33,579	4,709	—	—	—	—	—	—	38,288
Natural gas sales	93,611	4,146	—	124,711	81,823	53,277	—	2,507	360,075
Sales of purchased commodities	—	—	—	—	—	—	—	63,429	63,429
Royalties	(54,090)	(11,985)	(11,933)	—	(5,073)	—	—	(472)	(83,553)
Revenue from external customers	340,514	33,507	91,865	125,321	91,806	53,277	36,966	65,464	838,720
Purchased commodities	—	—	—	—	—	—	—	(63,429)	(63,429)
Transportation	(11,177)	(163)	(5,868)	—	(2,007)	(938)	—	—	(20,153)
Operating	(55,583)	(5,559)	(15,459)	(11,004)	(10,750)	(3,325)	(12,498)	(439)	(114,617)
General and administration	(8,441)	(845)	(3,709)	(871)	(1,437)	595	(1,058)	75	(15,691)
PRRT	—	—	—	—	—	—	(2,019)	—	(2,019)
Corporate income taxes	—	—	(9,488)	(51,948)	(7,924)	—	(115)	(26)	(69,501)
Interest expense	—	—	—	—	—	—	—	(21,074)	(21,074)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(79,778)	(79,778)
Realized foreign exchange loss	—	—	—	—	—	—	—	(2,297)	(2,297)
Realized other income	—	—	—	—	—	—	—	2,740	2,740
Fund flows from operations	265,313	26,940	57,341	61,498	69,688	49,609	21,276	(98,764)	452,901

	Six Months Ended June 30, 2023								
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Drilling and development	175,321	76,472	23,011	16,197	12,936	1,439	10,602	1,420	317,398
Exploration and evaluation	—	—	—	1	3,081	—	—	1,185	4,267
Crude oil and condensate sales	323,810	55,373	144,184	882	27,161	32	—	—	551,442
NGL sales	34,846	7,625	—	—	—	—	—	—	42,471
Natural gas sales	93,230	3,448	—	106,455	86,564	138,144	—	2,300	430,141
Sales of purchased commodities	—	—	—	—	—	—	—	87,290	87,290
Royalties	(50,896)	(17,427)	(17,924)	(21,482)	(5,399)	—	—	(1,209)	(114,337)
Revenue from external customers	400,990	49,019	126,260	85,855	108,326	138,176	—	88,381	997,007
Purchased commodities	—	—	—	—	—	—	—	(87,290)	(87,290)
Transportation	(20,753)	(132)	(14,415)	—	(6,173)	(3,482)	—	—	(44,955)
Operating	(123,097)	(13,238)	(41,303)	(26,603)	(21,616)	(15,144)	(31,746)	(827)	(273,574)
General and administration	(45,462)	(3,789)	(12,681)	(1,115)	(7,384)	(6,040)	(4,318)	40,842	(39,947)
Corporate income taxes	—	—	(3,015)	(12,512)	(22,772)	(227)	(1,515)	(1,149)	(41,190)
Windfall taxes	—	—	—	—	—	—	—	(56,224)	(56,224)
Interest expense	—	—	—	—	—	—	—	(42,085)	(42,085)
Realized gain on derivative instruments	—	—	—	—	—	—	—	82,003	82,003
Realized foreign exchange loss	—	—	—	—	—	—	—	(1,092)	(1,092)
Realized other income	—	—	—	—	—	—	—	7,623	7,623
Fund flows from operations	211,678	31,860	54,846	45,625	50,381	113,283	(37,579)	30,182	500,276

	Six Months Ended June 30, 2022								
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Drilling and development	80,377	32,049	18,922	2,217	12,138	972	45,352	302	192,329
Exploration and evaluation	—	—	2	(344)	596	—	—	5,914	6,168
Crude oil and condensate sales	476,498	63,914	196,696	1,203	27,176	—	86,547	—	852,034
NGL sales	64,412	9,114	—	—	—	—	—	—	73,526
Natural gas sales	154,559	7,192	—	256,690	164,261	157,306	—	3,455	743,463
Sales of purchased commodities	—	—	—	—	—	—	—	111,159	111,159
Royalties	(102,339)	(20,999)	(20,657)	—	(10,116)	—	—	(749)	(154,860)
Revenue from external customers	593,130	59,221	176,039	257,893	181,321	157,306	86,547	113,865	1,625,322
Purchased commodities	—	—	—	—	—	—	—	(111,159)	(111,159)
Transportation	(20,631)	(450)	(10,634)	—	(3,788)	(1,919)	—	—	(37,422)
Operating	(111,349)	(10,645)	(30,489)	(21,474)	(19,043)	(7,178)	(25,838)	(784)	(226,800)
General and administration	(15,263)	(2,430)	(7,574)	(1,675)	(2,591)	367	(1,901)	1,156	(29,911)
PRRT	—	—	—	—	—	—	(8,728)	—	(8,728)
Corporate income taxes	—	—	(16,691)	(87,214)	(10,908)	—	(215)	(145)	(115,173)
Interest expense	—	—	—	—	—	—	—	(35,897)	(35,897)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(224,001)	(224,001)
Realized foreign exchange loss	—	—	—	—	—	—	—	(1,547)	(1,547)
Realized other income	—	—	—	—	—	—	—	8,085	8,085
Fund flows from operations	445,887	45,696	110,651	147,530	144,991	148,576	49,865	(250,427)	842,769

Reconciliation of fund flows from operations to net earnings:

	Three Months Ended		Six Months Ended	
	Jun 30, 2023	Jun 30, 2022	Jun 30, 2023	Jun 30, 2022
Fund flows from operations	247,109	452,901	500,276	842,769
Equity based compensation	(4,998)	(7,499)	(28,523)	(32,868)
Unrealized gain (loss) on derivative instruments	11,177	168,058	103,875	(52,736)
Unrealized foreign exchange gain (loss)	35,124	(32,267)	19,646	7,870
Accretion	(18,599)	(13,746)	(38,650)	(27,384)
Depletion and depreciation	(154,389)	(140,763)	(302,520)	(275,003)
Deferred tax recovery (expense)	480	(63,497)	36,946	(7,404)
Gain on business combination	12,544	—	445,094	—
Loss on disposition	—	—	(226,828)	—
Impairment reversal	—	—	—	192,094
Unrealized other expense	(540)	(566)	(1,076)	(763)
Net earnings	127,908	362,621	508,240	646,575

3. Business combination

Equinor Energy Ireland Limited

On March 31, 2023, Vermilion purchased 100% of the shares outstanding of Equinor Energy Ireland Limited ("EEIL") from Equinor ASA. The acquisition adds an incremental 36.5% interest in the Corrib Natural Gas Project, increasing Vermilion's operated interest to 56.5%. The acquisition makes Vermilion the largest provider of domestic natural gas in Ireland.

The total consideration paid and the fair value of the assets acquired and liabilities assumed at the date of acquisition are detailed in the table below. The initial accounting for the working capital deficit has been determined on a provisional basis as final working capital amounts related to accounts receivable, accounts payable, and taxes payable are unavailable due to the timing of close.

	Consideration
Cash consideration paid	488,893
	Allocation of consideration
Cash acquired	400,002
Capital assets	768,026
Acquired working capital deficit	(103,527)
Asset retirement obligations	(42,277)
Derivative liability	(51,789)
Deferred tax liability	(36,448)
Net assets acquired	933,987
Gain on business combination	(445,094)
Total net assets acquired, net of gain on business combination	488,893

The gain on the business combination primarily resulted from increases in working capital and the fair value of capital assets from when the purchase and sale agreement was entered into in November 2021 and when the acquisition closed in March 2023.

The results of operations from the assets acquired and liabilities assumed have been included in Vermilion's consolidated financial statements beginning March 31, 2023 and have contributed revenues net of royalties of \$56.1 million and net earnings of \$12.6 million. Had the acquisition occurred on January 1, 2023, revenues would have increased by \$90.3 million and net earnings would have increased by \$55.0 million for the six months ended June 30, 2023.

4. Investment in securities

The total consideration paid and the fair value of the investments acquired are detailed in the table below:

	2023
Balance at January 1	56,366
Acquisition of securities	2,108
Fair value adjustment	151
Balance at June 30	58,625

5. Capital assets

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

	2023
Balance at January 1	5,691,522
Acquisitions	830,435
Dispositions	(534,016)
Additions	317,398
Increase in right-of-use assets	25
Depletion and depreciation	(287,134)
Changes in asset retirement obligations	21,354
Foreign exchange	(41,942)
Balance at June 30	5,997,642

Southeast Saskatchewan disposition

In March 2023, Vermilion sold non-core assets in southeast Saskatchewan for net proceeds of \$182.2 million and resulted in a loss on disposition of \$226.8 million. The book value of the net assets disposed of was \$409.0 million and consisted of \$534.0 million of capital assets, \$25.9 million of exploration and evaluation assets, and \$150.9 million of asset retirement obligations.

Minor acquisition

In March 2023, Vermilion completed a minor acquisition of Alberta assets for total consideration of \$19.0 million where \$33.9 million of capital assets and \$14.9 million of asset retirement obligations were recognized.

6. Exploration and evaluation assets

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

	2023
Balance at January 1	270,593
Additions	4,267
Dispositions	(25,862)
Depreciation	(15,386)
Foreign exchange	4,180
Balance at June 30	237,792

7. Asset retirement obligations

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

	2023
Balance at January 1	1,087,757
Additional obligations recognized	59,346
Dispositions	(150,885)
Obligations settled	(14,447)
Accretion	38,650
Changes in rates	19,162
Foreign exchange	(6,321)
Balance at June 30	1,033,262

Vermilion calculated the present value of the obligations using a credit-adjusted risk-free rate, calculated using a credit spread of 4.5% as at June 30, 2023 (December 31, 2022 - 4.5%) added to risk-free rates based on long-term, risk-free government bonds. Vermilion's credit spread is determined using the Company's expected cost of borrowing at the end of the reporting period.

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

	Jun 30, 2023	Dec 31, 2022
Canada	3.2 %	3.3 %
United States	4.0 %	4.1 %
France	3.2 %	3.4 %
Netherlands	2.7 %	2.7 %
Germany	2.3 %	2.5 %
Ireland	3.1 %	3.2 %
Australia	4.0 %	4.2 %

8. Capital disclosures

Vermilion defines capital as net debt and shareholders' capital. Net debt consists of long-term debt (excluding unrealized foreign exchange on swapped USD borrowings) plus adjusted working capital (defined as current assets less current liabilities, excluding current derivatives and current lease liabilities). 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 four quarter trailing fund flows from operations:

	Jun 30, 2023	Dec 31, 2022
Long-term debt	913,785	1,081,351
Adjusted working capital deficit ⁽¹⁾	407,315	265,111
Unrealized FX on swapped USD borrowings	—	(1,876)
Net debt	1,321,100	1,344,586
Ratio of net debt to four quarter trailing fund flows from operations	1.0	0.8

(1) Adjusted working capital is defined as current assets (excluding current derivatives), less current liabilities (excluding current derivatives and current lease liabilities)

9. Long-term debt

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

	As at	
	Jun 30, 2023	Dec 31, 2022
Revolving credit facility	—	147,666
2025 senior unsecured notes	395,796	404,463
2030 senior unsecured notes	517,989	529,222
Long-term debt	913,785	1,081,351

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 2025 senior unsecured notes as at June 30, 2023 was \$388.6 million (December 31, 2022 - \$391.3 million). The fair value of the 2030 senior unsecured notes as at June 30, 2023 was \$489.9 million (December 31, 2022 - \$496.8 million).

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

	2023
Balance at January 1	1,081,351
Repayments on the revolving credit facility	(146,591)
Amortization of transaction costs	1,076
Foreign exchange	(22,051)
Balance at June 30	913,785

Revolving credit facility

As at June 30, 2023, Vermilion had in place a bank revolving credit facility maturing May 29, 2027 with the following terms:

	As at	
	Jun 30, 2023	Dec 31, 2022
Total facility amount	1,600,000	1,600,000
Amount drawn	—	(147,666)
Letters of credit outstanding	(31,285)	(13,527)
Unutilized capacity	1,568,715	1,438,807

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.

On May 19, 2023, the maturity date of the facility was extended to May 28, 2027 (previously May 29, 2026) and the total facility amount of \$1.6 billion was unchanged. As at June 30, 2023, the facility was undrawn.

The facility bears interest at a rate applicable to demand loans plus applicable margins.

As at June 30, 2023, the revolving credit facility was subject to the following financial covenants:

Financial covenant	Limit	As at	
		Jun 30, 2023	Dec 31, 2022
Consolidated total debt to consolidated EBITDA	Less than 4.0	0.46	0.51
Consolidated total senior debt to consolidated EBITDA	Less than 3.5	—	0.07
Consolidated EBITDA to consolidated interest expense	Greater than 2.5	23.39	27.10

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 consolidated balance sheet.
- Consolidated total senior debt: Consolidated total debt excluding unsecured and subordinated debt.
- Consolidated EBITDA: 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 June 30, 2023, 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 June 30, 2023 and December 31, 2022, Vermilion was in compliance with the above covenants.

2025 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.

Subsequent to March 15, 2023, Vermilion may redeem some or all of the senior unsecured notes at a 100.000% redemption price plus any accrued and unpaid interest.

2030 senior unsecured notes

On April 26, 2022, Vermilion closed a private offering of US \$400.0 million 8-year senior unsecured notes. The notes were priced at 99.241% of par, mature on May 1, 2030, and bear interest at a rate of 6.875% per annum. Interest is paid semi-annually on May 1 and November 1, commencing on November 1, 2022. The notes are senior unsecured obligations of Vermilion and rank equally with existing and future senior unsecured indebtedness.

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:

- On or after May 1, 2025, Vermilion may redeem some or all of the senior unsecured notes at the redemption prices set forth below, together with accrued and unpaid interest.
- Prior to May 1, 2025, Vermilion may redeem up to 35% of the original principal amount of the notes with an amount of cash not greater than the net cash proceeds of certain equity offerings at a redemption price of 106.875% of the principal amount of the notes, together with accrued and unpaid interest.
- Prior to May 1, 2025, Vermilion may also redeem some or all of the notes at a price equal to 100% of the principal amount of the notes, plus a "make-whole premium," together with applicable premium, accrued and unpaid interest.

Year	Redemption price
2025	103.438 %
2026	102.292 %
2027	101.146 %
2028 and thereafter	100.000 %

10. Shareholders' capital

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

Shareholders' Capital	2023	
	Shares ('000s)	Amount
Balance at January 1	163,227	4,243,794
Vesting of equity based awards	3,428	21,175
Shares issued for equity based compensation	600	10,280
Share-settled dividends on vested equity based awards	57	1,051
Repurchase of shares	(3,018)	(78,112)
Balance at June 30	164,294	4,198,188

Dividends are approved by the Board of Directors and are paid quarterly. Dividends declared to shareholders for the six months ended June 30, 2023 were \$32.7 million or \$0.20 per common share (2022 - \$19.7 million or \$0.06 per common share)

On July 10, 2023, the Toronto Stock Exchange approved our notice of intention to renew our normal course issuer bid ("the NCIB"). The NCIB renewal allows Vermilion to purchase up to 16,308,587 common shares (representing approximately 10% of outstanding common shares) beginning July 12, 2023 and ending July 11, 2024. Common shares purchased under the NCIB will be cancelled.

Subsequent to June 30, 2023 Vermilion purchased and cancelled 0.3 million common shares under the NCIB for total consideration of \$4.7 million.

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.

	Jun 30, 2023
Currency risk - Euro to Canadian dollar	
\$0.01 increase in strength of the Canadian dollar against the Euro	7,113
\$0.01 decrease in strength of the Canadian dollar against the Euro	(7,113)
Currency risk - US dollar to Canadian dollar	
\$0.01 increase in strength of the Canadian dollar against the US \$	5,448
\$0.01 decrease in strength of the Canadian dollar against the US \$	(5,448)
Commodity price risk - Crude oil	
US \$5.00/bbl increase in crude oil price used to determine the fair value of derivatives	(3,017)
US \$5.00/bbl decrease in crude oil price used to determine the fair value of derivatives	3,017
Commodity price risk - European natural gas	
€5.0/GJ increase in European natural gas price used to determine the fair value of derivatives	(126,122)
€5.0/GJ decrease in European natural gas price used to determine the fair value of derivatives	146,224

12. Cash and cash equivalents

The following table summarizes Vermilion's cash and cash equivalents:

	As at	
	Jun 30, 2023	Dec 31, 2022
Cash on deposit with financial institutions	50,568	13,701
Guaranteed investment certificates	132	135
Cash and cash equivalents	50,700	13,836

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² Audit Committee Chair (Independent)

³ Audit Committee Member (Independent)

⁴ Governance and Human Resources Committee Chair (Independent)

⁵ Governance and Human Resources Committee Member (Independent)

⁶ Health, Safety and Environment Committee Chair (Independent)

⁷ Health, Safety and Environment Committee Member (Independent)

⁸ Independent Reserves Committee Chair (Independent)

⁹ Independent Reserves Committee Member (Independent)

¹⁰ Sustainability Committee Chair (Independent)

¹¹ Sustainability Committee Member (Independent)

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Vice President & Chief Financial Officer

Terry Hergott
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Vice President Sustainability

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Vice President International & HSE

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Kyle Preston
Vice President Investor Relations

Averyl Schraven
Vice President People & Culture

Jenson Tan *
Vice President Business Development

Gerard Schut
Vice President European Operations

Jamie Gagner
Interim Corporate Secretary

* Executive Committee

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Alberta Treasury Branches

Bank of America N.A., Canada Branch

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

La Caisse Centrale Desjardins du Québec

Citibank N.A., Canadian Branch - Citibank Canada

Canadian Western Bank

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