

Q3 2017

FINANCIAL STATEMENTS

EXCELLENCE. TRUST. RESPECT. RESPONSIBILITY.

INTERNATIONALLY DIVERSIFIED | SUSTAINABLE GROWTH AND INCOME

VERMILION
ENERGY



DISCLAIMER

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

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

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

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

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

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

CONSOLIDATED BALANCE SHEET
(THOUSANDS OF CANADIAN DOLLARS, UNAUDITED)

	Note	Sep 30, 2017	Dec 31, 2016
ASSETS			
Current			
Cash and cash equivalents		42,199	62,775
Accounts receivable		125,022	131,719
Crude oil inventory		14,345	14,528
Derivative instruments		26,009	4,336
Prepaid expenses		21,423	12,548
		228,998	225,906
Derivative instruments		5,564	1,157
Deferred taxes		89,343	152,046
Exploration and evaluation assets	4	288,779	274,830
Capital assets	3	3,398,253	3,433,245
		4,010,937	4,087,184
LIABILITIES			
Current			
Accounts payable and accrued liabilities		203,305	181,557
Dividends payable	7	26,141	25,426
Derivative instruments		17,810	47,660
Income taxes payable		50,980	36,219
		298,236	290,862
Derivative instruments		4,464	27,484
Long-term debt	6	1,301,757	1,362,192
Finance lease obligation		17,201	19,628
Asset retirement obligations	5	550,336	525,022
Deferred taxes		277,315	283,533
		2,449,309	2,508,721
SHAREHOLDERS' EQUITY			
Shareholders' capital	7	2,627,368	2,452,722
Contributed surplus		69,788	101,788
Accumulated other comprehensive income		58,467	30,339
Deficit		(1,193,995)	(1,006,386)
		1,561,628	1,578,463
		4,010,937	4,087,184

APPROVED BY THE BOARD*(Signed "Catherine L. Williams")*

Catherine L. Williams, Director

(Signed "Anthony Marino")

Anthony Marino, Director

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

	Note	Three Months Ended		Nine Months Ended	
		Sep 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016
REVENUE					
Petroleum and natural gas sales		248,505	232,660	781,497	622,900
Royalties		(16,994)	(12,969)	(50,935)	(39,285)
Petroleum and natural gas revenue		231,511	219,691	730,562	583,615
EXPENSES					
Operating		61,832	54,825	177,027	162,569
Transportation		10,800	9,696	31,462	29,946
Equity based compensation	9	12,858	15,642	45,492	49,746
Loss (gain) on derivative instruments		15,475	(13,864)	(91,164)	(406)
Interest expense		13,400	14,150	43,603	42,547
General and administration		12,114	12,295	38,432	41,365
Foreign exchange loss (gain)		7,126	(4,972)	(30,499)	(4,415)
Other (income) expense		(14)	106	(68)	46
Accretion	5	6,850	6,341	19,980	18,475
Depletion and depreciation	3, 4	120,826	143,556	362,504	401,147
Impairment		-	-	-	14,762
		261,267	237,775	596,769	755,782
(LOSS) EARNINGS BEFORE INCOME TAXES		(29,756)	(18,084)	133,793	(172,167)
TAXES					
Deferred		1,998	(6,883)	49,315	(28,418)
Current		7,437	3,274	30,865	12,270
		9,435	(3,609)	80,180	(16,148)
NET (LOSS) EARNINGS		(39,191)	(14,475)	53,613	(156,019)
OTHER COMPREHENSIVE (LOSS) INCOME					
Currency translation adjustments		(5,407)	38,963	28,128	(29,893)
COMPREHENSIVE (LOSS) INCOME		(44,598)	24,488	81,741	(185,912)
NET (LOSS) EARNINGS PER SHARE					
Basic		(0.32)	(0.12)	0.45	(1.36)
Diluted		(0.32)	(0.12)	0.44	(1.36)
WEIGHTED AVERAGE SHARES OUTSTANDING ('000s)					
Basic		121,280	116,814	120,152	114,975
Diluted		121,280	116,814	121,963	114,975

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

	Note	Three Months Ended		Nine Months Ended	
		Sep 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016
OPERATING					
Net (loss) earnings		(39,191)	(14,475)	53,613	(156,019)
Adjustments:					
Accretion	5	6,850	6,341	19,980	18,475
Depletion and depreciation	3, 4	120,826	143,556	362,504	401,147
Impairment		-	-	-	14,762
Unrealized loss (gain) on derivative instruments		24,198	(332)	(78,950)	63,050
Equity based compensation		12,858	15,642	45,492	49,746
Unrealized foreign exchange loss (gain)		3,016	(2,899)	(31,082)	(1,665)
Unrealized other expense		200	24	440	131
Deferred taxes		1,998	(6,883)	49,315	(28,418)
Asset retirement obligations settled	5	(1,749)	(2,066)	(6,118)	(6,290)
Changes in non-cash operating working capital		12,574	12,818	27,961	(5,662)
Cash flows from operating activities		141,580	151,726	443,155	349,257
INVESTING					
Drilling and development	3	(75,837)	(41,039)	(228,682)	(175,108)
Exploration and evaluation	4	(15,545)	-	(17,464)	(418)
Property acquisitions	3, 4	(20,976)	(10,391)	(24,589)	(19,811)
Changes in non-cash investing working capital		11,341	(15,715)	6,496	(18,325)
Cash flows used in investing activities		(101,017)	(67,145)	(264,239)	(213,662)
FINANCING					
Borrowings (repayments) on the revolving credit facility	6	43,829	(44,138)	(444,930)	147,529
Issuance (repayment) of senior unsecured notes	6	-	-	391,906	(225,000)
Decrease in finance lease obligation		(1,246)	(1,112)	(3,627)	(3,005)
Cash dividends		(54,227)	(24,291)	(143,353)	(72,395)
Cash flows used in financing activities		(11,644)	(69,541)	(200,004)	(152,871)
Foreign exchange (loss) gain on cash held in foreign currencies		(2,444)	1,182	512	(2,983)
Net change in cash and cash equivalents		26,475	16,222	(20,576)	(20,259)
Cash and cash equivalents, beginning of period		15,724	5,195	62,775	41,676
Cash and cash equivalents, end of period		42,199	21,417	42,199	21,417
Supplementary information for cash flows from operating activities					
Interest paid		18,057	8,628	41,234	49,353
Income taxes paid (refunded)		995	(9,968)	16,104	(15,447)

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

	Nine Months Ended	
	Sep 30, 2017	Sep 30, 2016
SHAREHOLDERS' CAPITAL		
Balance, beginning of period	2,452,722	2,181,089
Shares issued for the Dividend Reinvestment Plan	88,676	149,418
Vesting of equity based awards	69,743	67,146
Equity based compensation	7,749	6,700
Share-settled dividends on vested equity based awards	8,478	3,242
Balance, end of period	2,627,368	2,407,595
CONTRIBUTED SURPLUS		
Balance, beginning of period	101,788	107,946
Equity based compensation	37,743	43,046
Vesting of equity based awards	(69,743)	(67,146)
Balance, end of period	69,788	83,846
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of period	30,339	113,647
Currency translation adjustments	28,128	(29,893)
Balance, end of period	58,467	83,754
DEFICIT		
Balance, beginning of period	(1,006,386)	(544,023)
Net earnings (loss)	53,613	(156,019)
Dividends declared	(232,744)	(222,974)
Share-settled dividends on vested equity based awards	(8,478)	(3,242)
Balance, end of period	(1,193,995)	(926,258)
TOTAL SHAREHOLDERS' EQUITY	1,561,628	1,648,937

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

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(TABULAR AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE AND PER SHARE AMOUNTS, UNAUDITED)**

1. BASIS OF PRESENTATION

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

These condensed consolidated interim financial statements are in compliance with International Accounting Standard ("IAS") 34, "Interim financial reporting" and have been prepared using the same accounting policies and methods of computation as Vermilion's consolidated financial statements for the year ended December 31, 2016.

These condensed consolidated interim financial statements should be read in conjunction with Vermilion's consolidated financial statements for the year ended December 31, 2016, which are contained within Vermilion's Annual Report for the year ended December 31, 2016 and are available on SEDAR at www.sedar.com or on Vermilion's website at www.vermilionenergy.com.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of Vermilion on October 26, 2017.

2. SEGMENTED INFORMATION

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

(\$M)	Three Months Ended September 30, 2017								Total
	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	
Drilling and development	43,746	14,071	4,548	855	1,101	10,154	1,362	-	75,837
Exploration and evaluation	-	1,685	7,042	2,165	-	-	-	4,653	15,545
Oil and gas sales to external customers	77,238	66,100	21,258	15,663	28,218	35,257	4,771	-	248,505
Royalties	(6,653)	(6,399)	(360)	(2,261)	-	-	(1,321)	-	(16,994)
Revenue from external customers	70,585	59,701	20,898	13,402	28,218	35,257	3,450	-	231,511
Transportation	(4,485)	(3,434)	-	(1,603)	(1,252)	-	(26)	-	(10,800)
Operating	(22,071)	(13,148)	(4,498)	(3,477)	(5,717)	(12,292)	(629)	-	(61,832)
General and administration	(2,239)	(2,543)	(510)	(1,708)	(670)	(1,675)	(935)	(1,834)	(12,114)
PRRT	-	-	-	-	-	(4,345)	-	-	(4,345)
Corporate income taxes	-	(1,396)	(1,983)	-	-	(193)	-	480	(3,092)
Interest expense	-	-	-	-	-	-	-	(13,400)	(13,400)
Realized gain on derivative instruments	-	-	-	-	-	-	-	8,723	8,723
Realized foreign exchange loss	-	-	-	-	-	-	-	(4,110)	(4,110)
Realized other income	-	-	-	-	-	-	-	214	214
Fund flows from operations	41,790	39,180	13,907	6,614	20,579	16,752	1,860	(9,927)	130,755

Three Months Ended September 30, 2016

(\$M)	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	Total
Drilling and development	10,421	11,110	6,441	978	2,416	6,908	2,765	-	41,039
Oil and gas sales to external customers	64,453	65,221	23,470	6,783	26,065	44,835	1,833	-	232,660
Royalties	(4,817)	(7,069)	(312)	(246)	-	-	(525)	-	(12,969)
Revenue from external customers	59,636	58,152	23,158	6,537	26,065	44,835	1,308	-	219,691
Transportation	(3,978)	(3,586)	-	(556)	(1,576)	-	-	-	(9,696)
Operating	(15,579)	(12,933)	(4,854)	(3,321)	(4,695)	(13,011)	(432)	-	(54,825)
General and administration	(3,010)	(4,590)	633	(1,657)	(955)	(1,289)	(918)	(509)	(12,295)
PRRT	-	-	-	-	-	272	-	-	272
Corporate income taxes	-	955	(1,264)	-	-	(2,916)	-	(321)	(3,546)
Interest expense	-	-	-	-	-	-	-	(14,150)	(14,150)
Realized gain on derivative instruments	-	-	-	-	-	-	-	13,532	13,532
Realized foreign exchange gain	-	-	-	-	-	-	-	2,073	2,073
Realized other expense	-	-	-	-	-	-	-	(82)	(82)
Fund flows from operations	37,069	37,998	17,673	1,003	18,839	27,891	(42)	543	140,974

Nine Months Ended September 30, 2017

(\$M)	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	Total
Total assets	1,546,888	822,316	207,330	288,348	667,006	247,296	75,166	156,587	4,010,937
Drilling and development	121,802	51,530	12,233	2,087	224	22,750	18,056	-	228,682
Exploration and evaluation	-	1,824	7,042	2,165	-	-	-	6,433	17,464
Oil and gas sales to external customers	236,381	189,325	67,146	49,798	109,537	118,305	11,005	-	781,497
Royalties	(23,957)	(17,966)	(1,075)	(4,857)	-	-	(3,080)	-	(50,935)
Revenue from external customers	212,424	171,359	66,071	44,941	109,537	118,305	7,925	-	730,562
Transportation	(12,532)	(10,152)	-	(5,043)	(3,709)	-	(26)	-	(31,462)
Operating	(58,088)	(36,670)	(14,231)	(14,151)	(14,619)	(37,967)	(1,301)	-	(177,027)
General and administration	(7,064)	(9,326)	(1,666)	(5,687)	(1,803)	(5,001)	(3,067)	(4,818)	(38,432)
PRRT	-	-	-	-	-	(16,247)	-	-	(16,247)
Corporate income taxes	-	(8,208)	(3,644)	-	-	(2,781)	-	15	(14,618)
Interest expense	-	-	-	-	-	-	-	(43,603)	(43,603)
Realized gain on derivative instruments	-	-	-	-	-	-	-	12,214	12,214
Realized foreign exchange loss	-	-	-	-	-	-	-	(583)	(583)
Realized other income	-	-	-	-	-	-	-	508	508
Fund flows from operations	134,740	107,003	46,530	20,060	89,406	56,309	3,531	(36,267)	421,312

Nine Months Ended September 30, 2016

(\$M)	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	Total
Total assets	1,507,693	816,731	186,524	154,699	807,534	258,257	54,953	129,026	3,915,417
Drilling and development	45,811	37,345	18,003	2,109	7,664	54,674	9,502	-	175,108
Exploration and evaluation	-	-	-	-	-	-	-	418	418
Oil and gas sales to external customers	182,294	174,937	74,729	20,755	66,429	98,483	5,273	-	622,900
Royalties	(14,085)	(20,399)	(1,168)	(2,077)	-	-	(1,556)	-	(39,285)
Revenue from external customers	168,209	154,538	73,561	18,678	66,429	98,483	3,717	-	583,615
Transportation	(11,888)	(10,775)	-	(2,494)	(4,789)	-	-	-	(29,946)
Operating	(53,382)	(38,518)	(15,136)	(8,420)	(13,498)	(32,602)	(1,013)	-	(162,569)
General and administration	(9,791)	(14,000)	(1,363)	(6,559)	(3,249)	(4,402)	(2,747)	746	(41,365)
PRRT	-	-	-	-	-	-	-	-	-
Corporate income taxes	-	-	(6,724)	-	-	(4,819)	-	(727)	(12,270)
Interest expense	-	-	-	-	-	-	-	(42,547)	(42,547)
Realized gain on derivative instruments	-	-	-	-	-	-	-	63,456	63,456
Realized foreign exchange gain	-	-	-	-	-	-	-	2,750	2,750
Realized other income	-	-	-	-	-	-	-	85	85
Fund flows from operations	93,148	91,245	50,338	1,205	44,893	56,660	(43)	23,763	361,209

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

(\$M)	Three Months Ended		Nine Months Ended	
	Sep 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016
Fund flows from operations	130,755	140,974	421,312	361,209
Accretion	(6,850)	(6,341)	(19,980)	(18,475)
Depletion and depreciation	(120,826)	(143,556)	(362,504)	(401,147)
Impairment	-	-	-	(14,762)
Unrealized (loss) gain on derivative instruments	(24,198)	332	78,950	(63,050)
Equity based compensation	(12,858)	(15,642)	(45,492)	(49,746)
Unrealized foreign exchange (loss) gain	(3,016)	2,899	31,082	1,665
Unrealized other expense	(200)	(24)	(440)	(131)
Deferred taxes	(1,998)	6,883	(49,315)	28,418
Net (loss) earnings	(39,191)	(14,475)	53,613	(156,019)

3. CAPITAL ASSETS

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

(\$M)	2017
Balance at January 1	3,433,245
Additions	228,682
Property acquisitions	24,549
Changes in asset retirement obligations	(4,329)
Depletion and depreciation	(355,315)
Foreign exchange	71,421
Balance at September 30	3,398,253

4. EXPLORATION AND EVALUATION ASSETS

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

(\$M)	2017
Balance January 1	274,830
Additions	17,464
Property acquisitions	40
Changes in asset retirement obligations	1,092
Depreciation	(6,396)
Foreign exchange	1,749
Balance September 30	288,779

5. ASSET RETIREMENT OBLIGATIONS

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

(\$M)	2017
Balance at January 1	525,022
Additional obligations recognized	3,007
Changes in estimates	(112)
Obligations settled	(6,118)
Accretion	19,980
Changes in discount rates	(6,132)
Foreign exchange	14,689
Balance at September 30	550,336

6. LONG-TERM DEBT

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

(\$M)	As at	
	Sep 30, 2017	Dec 31, 2016
Revolving credit facility	933,137	1,362,192
Senior unsecured notes	368,620	-
Long-term debt	1,301,757	1,362,192

The fair value of the revolving credit facility is equal to its carrying value due to the use of short-term borrowing instruments at market rates of interest. The fair value of the senior unsecured notes as at September 30, 2017 was \$375.8 million.

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

(\$M)	2017
Balance at January 1	1,362,192
Repayments on the revolving credit facility	(444,930)
Issuance of senior unsecured notes	391,906
Amortization of transaction costs and prepaid interest	1,889
Foreign exchange	(9,300)
Balance at September 30	1,301,757

Revolving Credit Facility

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

(\$M)	As at	
	Sep 30, 2017	Dec 31, 2016
Total facility amount	1,400,000	2,000,000
Amount drawn	(933,137)	(1,362,192)
Letters of credit outstanding	(3,900)	(20,100)
Unutilized capacity	462,963	617,708

The facility is extendable from time to time at the option of the lenders and upon notice from Vermilion. If no extension is granted by the lenders, the amounts owing pursuant to the facility are due at the maturity date. The facility is secured by various fixed and floating charges against the subsidiaries of Vermilion. The facility bears interest at a rate applicable to demand loans plus applicable margins. As at September 30, 2017, a 1% increase in the average Canadian prime interest rate would decrease comprehensive income before tax by \$6.2 million (and vice versa).

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

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

Financial covenant	Limit	As at	
		Sep 30, 2017	Dec 31, 2016
Consolidated total debt to consolidated EBITDA	4.0	1.99	2.36
Consolidated total senior debt to consolidated EBITDA	3.5	1.40	2.32
Consolidated total senior debt to total capitalization	55%	32%	46%

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

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

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

Senior Unsecured Notes

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

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

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

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

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

7. SHAREHOLDERS' CAPITAL

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

Shareholders' Capital	Shares ('000s)	Amount (\$M)
Balance as at January 1	118,263	2,452,722
Shares issued for the Dividend Reinvestment Plan	1,929	88,676
Vesting of equity based awards	1,060	69,743
Shares issued for equity based compensation	163	7,749
Share-settled dividends on vested equity based awards	170	8,478
Balance as at September 30	121,585	2,627,368

Dividends declared to shareholders for the nine months ended September 30, 2017 were \$232.7 million (2016 - \$223.0 million).

Subsequent to the end of the period and prior to the condensed consolidated interim financial statements being authorized for issue, Vermilion declared dividends totalling \$26.2 million or \$0.215 per share.

8. CAPITAL DISCLOSURES

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

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

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

(\$M except as indicated)	Three Months Ended		Nine Months Ended	
	Sep 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016
Long-term debt	1,301,757	1,312,652	1,301,757	1,312,652
Current liabilities	298,236	246,498	298,236	246,498
Current assets	(228,998)	(215,227)	(228,998)	(215,227)
Net debt	1,370,995	1,343,923	1,370,995	1,343,923
Fund flows from operations	130,755	140,974	421,312	361,209
Annualized fund flows from operations	523,020	563,896	561,749	481,612
Ratio of net debt to annualized fund flows from operations	2.6	2.4	2.4	2.8

9. EQUITY BASED COMPENSATION

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

Number of Awards ('000s)	2017
Opening balance	1,738
Granted	539
Vested	(539)
Forfeited	(49)
Closing balance	1,689

10. FINANCIAL INSTRUMENTS

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

(\$M)	Sep 30, 2017
Currency risk - Euro to Canadian	
5% increase in strength of the Canadian dollar against the Euro	541
5% decrease in strength of the Canadian dollar against the Euro	(541)
Currency risk - US \$ to Canadian	
5% increase in strength of the Canadian dollar against the US \$	16,556
5% decrease in strength of the Canadian dollar against the US \$	(16,556)
Commodity price risk - crude oil	
US \$5.00/bbl increase in crude oil price used to determine the fair value of derivatives	(18,422)
US \$5.00/bbl decrease in crude oil price used to determine the fair value of derivatives	13,596
Commodity price risk - European natural gas	
€ 0.5/GJ increase in European natural gas price used to determine the fair value of derivatives	(28,256)
€ 0.5/GJ decrease in European natural gas price used to determine the fair value of derivatives	31,022

CORPORATE INFORMATION**DIRECTORS**

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William Roby ^{5, 6}
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Catherine L. Williams ^{3, 4}
Calgary, Alberta

¹ Chairman of the Board

² Lead Director

³ Audit Committee

⁴ Governance and Human Resources Committee

⁵ Health, Safety and Environment Committee

⁶ Independent Reserves Committee

ABBREVIATIONS

\$M thousand dollars

\$MM million dollars

AECO the daily average benchmark price for natural gas at the AECO
'C' hub in Alberta

bb(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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Curtis W. Hicks
Executive Vice President & Chief Financial Officer

Mona Jasinski
Executive Vice President, People and Culture

Michael Kaluza
Executive Vice President & Chief Operating Officer

Dion Hatcher
Vice President Canada Business Unit

Terry Hergott
Vice President Marketing

Daniel Goulet
Director Corporate HSE

Jenson Tan
Vice President Business Development

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

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Timothy R. Morris
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Business Unit

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Gerard Schut
Vice President European Operations

Darcy Kerwin
Managing Director - France Business Unit

Scott Seatter
Managing Director - Netherlands Business Unit

Albrecht Moehring
Managing Director - Germany Business Unit

Bryan Sralla
Managing Director - Central & Eastern Europe Business
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Canadian Imperial Bank of Commerce

National Bank of Canada

Royal Bank of Canada

The Bank of Nova Scotia

Alberta Treasury Branches

Bank of America N.A., Canada Branch

BNP Paribas, Canada Branch

Citibank N.A., Canadian Branch - Citibank Canada

HSBC Bank Canada

JPMorgan Chase Bank, N.A., Toronto Branch

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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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