2018

ANNUAL REPORT

EXCELLENCE. TRUST. RESPECT. RESPONSIBILITY.

INTERNATIONALLY DIVERSIFIED | SUSTAINABLE GROWTH AND INCOME

VERMILION ENERGY

Front Cover Theme

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

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

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

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Annual General Meeting

April 25, 2019
3:00 PM MST
The Ballroom
Metropolitan Centre
333 - 4th Avenue S.W.
Calgary, Alberta

Disclaimer

Certain statements included or incorporated by reference in this document may constitute forward looking statements or financial outlooks under applicable securities legislation. Such forward looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward looking statements or information in this document may include, but are not limited to: capital expenditures and Vermilion's ability to fund such expenditures; Vermilion's additional debt capacity providing it with additional working capital; the flexibility of Vermilion's capital program and operations; business strategies and objectives; operational and financial performance; estimated volumes of reserves and resources; petroleum and natural gas sales; future production levels and the timing thereof, including Vermilion's 2019 guidance, and rates of average annual production growth; the effect of changes in crude oil and natural gas prices, changes in exchange rates and significant declines in production or sales volumes due to unforeseen circumstances; the effect of possible changes in critical accounting estimates; statements regarding the growth and size of Vermilion's future project inventory, and the wells expected to be drilled in 2019; exploration and development plans and the timing thereof; Vermilion's ability to reduce its debt, including its ability to redeem senior unsecured notes prior to maturity; statements regarding Vermilion's hedging program, its plans to add to its hedging positions, and the anticipated impact of Vermilion's hedging program on project economics and free cash flows; the potential financial impact of climate-related risks; acquisition and disposition plans and the timing thereof; operating and other expenses, including the payment and amount of future dividends; royalty and income tax rates and Vermilion's expectations regarding future taxes and taxability; and the timing of regulatory proceedings and approvals.

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

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

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

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

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

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

Abbreviations

$M	thousand dollars
$MM	million dollars
AECO	the daily average benchmark price for natural gas at the AECO ‘C’ hub in Alberta
bbl(s)	barrel(s)
bbls/d	barrels per day
boe	barrel of oil equivalent, including: crude oil, condensate, natural gas liquids, and natural gas (converted on the basis of one boe for six mcf of natural gas)
boe/d	barrel of oil equivalent per day
GJ	gigajoules
LSB	light sour blend crude oil reference price
mbbls	thousand barrels
mcf	thousand cubic feet
mmcf/d	million cubic feet per day
NBP	the reference price paid for natural gas in the United Kingdom at the National Balancing Point Virtual Trading Point.
NGLs	natural gas liquids, which includes butane, propane, and ethane
PRRT	Petroleum Resource Rent Tax, a profit based tax levied on petroleum projects in Australia
tCO2e	tonnes of carbon dioxide equivalent
TTF	the price for natural gas in the Netherlands, quoted in megawatt hours of natural gas, at the Title Transfer Facility Virtual Trading Point
WTI	West Texas Intermediate, the reference price paid for crude oil of standard grade in US dollars at Cushing, Oklahoma

Highlights

- Q4 2018 production averaged 101,621 boe/d, representing a 6% increase over the prior quarter, primarily due to strong performance from our Netherlands, Canadian and US business units.

- 2018 production increased by 28% year-over-year to 87,270 boe/d (10% on a per share basis), within 1% of the mid-point of our guidance range.

- Fund flows from operations ("FFO")(1) for Q4 2018 was $222 million ($1.46/basic share(1)), down 15% from the previous quarter as higher production was more than offset by lower commodity prices. FFO in 2018 was $839 million ($5.96/basic share(1)), an increase of 39% from the prior year (19% on a per share basis), due to higher production volumes and commodity prices, which were partially offset by $111 million of realized hedging losses.

- Net earnings in 2018 were $272 million ($1.93/basic share), representing a 336% increase over the prior year (271% on a per share basis). We generated a Return on Capital Employed(1) ("ROCE") of 9%, compared to our 5-year average ROCE of 4%.

- Production in the Netherlands in Q4 2018 averaged 8,749 boe/d, an increase of 17% from the prior quarter. The increase is primarily due to the benefit of a full quarter contribution from the Eesveen-02 well (60% working interest), which we brought on production late in the third quarter at a restricted rate of 10 mmcf/d net.

- In Ireland, production from the Corrib Natural Gas Project (the "Corrib Project") averaged 52 mmcf/d (8,672 boe/d) in Q4 2018, an increase of 1% from the prior quarter. On November 30, 2018, we assumed operatorship of the Corrib Project and completed the transfer of Shell E&P Ireland Limited ("SEPIL") along with an incremental 1.5% working interest in the Corrib Project to Vermilion from Nephin Energy Holdings Limited, a wholly owned subsidiary of Canada Pension Plan Investment Board ("CPPIB"). Cash consideration at closing was $9 million, which was more than offset by the assumption of $15 million in positive net working capital associated with the acquisition.

- In Canada, production averaged a record 60,814 boe/d in Q4 2018, representing an increase of 6% from the previous quarter. The increase was primarily due to new well completions in both our southeast Saskatchewan assets and Alberta assets.

- In the United States, Q4 2018 production averaged 3,545 boe/d, an increase of 19% from the prior quarter, due to a full quarter of production associated with the Powder River Basin acquisition completed in the prior quarter.

- In Australia, production averaged 4,174 bbl/d in Q4 2018, down 11% from the previous quarter primarily due to a planned shutdown for maintenance and other downtime which was required to allow drilling of two new wells. We commenced drilling of the B15 and B16 wells in early November 2018 and completed the wells in late January 2019. The wells were tested in February 2019. The B15 well tested at an oil rate of 8,800 bbls/d over a 48-hour period and the B16 well tested at an oil rate of 7,600 bbls/d over a 36-hour period(2). We plan to intermittently produce the new wells at restricted rates to maximize long-term value.

- Our 2018 reserves as evaluated by GLJ as at December 31, 2018 are as follows:

  - Proved plus probable ("2P") reserves increased 63% from year-end 2017 to 488.1(3) mmboe. We replaced 187% of 2P reserves through development activities and 695% including acquisitions. Our 2P finding and development ("F&D") cost(4) was $7.79 per boe, including future development capital ("FDC")(4), resulting in an organic 2P Operating Recycle Ratio(5) (including FDC) of 4.1x compared to 2.8x in 2017.

  - Proved ("1P") reserves increased 69% from year-end 2017 to 298.2(3) mmboe. We replaced 157% of 1P reserves through development activities and 481% including acquisitions. Our 1P F&D cost was $13.49 per boe, including FDC, resulting in an organic 1P Operating Recycle Ratio(5) (including FDC) of 2.3x.

  - Proved developed producing ("PDP") reserves increased 55% from year-end 2017 to 192.1(3) mmboe. We replaced 130% of PDP reserves through development activities and 314% including acquisitions. Our PDP F&D cost was $15.65 per boe, including FDC, resulting in an organic PDP Operating Recycle Ratio(5) (including FDC) of 2.0x.

- Our independent 2018 GLJ Resources Report(6) indicates risked low, best, and high estimates for contingent resources in the Development Pending category of 156(6) mmboe, 240(6) mmboe, and 334(6) mmboe respectively, increases of 45%, 36% and 32% from year-end 2017. The GLJ 2018 Resources Report also indicates risked low, best, and high estimates for contingent resources in the Development Unclarified category of 11(6) mmboe, 37(6) mmboe, and 53(6) mmboe respectively, increases of 47%, 13% and 15% from year-end 2017. Over 86% of our risked contingent resources reside in the Development Pending category. Prospective resources were assessed at risked low, best and high estimates of 55(6) mmboe, 161[6] mmboe, and 284[6] mmboe respectively, increases of 7%, 5% and 9% from year-end 2017. Our contingent and prospective resource bases remain a source of reserve additions, with 17 mmboe of contingent resources converted to 2P reserves during 2018.[6]

- Vermilion was named to the CDP Climate Leadership Level (-A) for the second consecutive year in 2018. We were the only Canadian oil and gas company and one of only two North American oil and gas companies to receive this designation, ranking Vermilion in the top 5% of oil and gas companies globally. Vermilion ranked second within the oil and gas sector, and was among the top quartile of all companies in the S&P/TSX Composite Index in the annual Globe and Mail Board Games evaluation for 2018. We were also a finalist for the Finance and Sustainability Initiative's award for Best Sustainability Report in the Non-Renewable Resources - Oil and Gas category for our 2017 Sustainability Report, an award which we won last year for our 2016 Sustainability Report.

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

(2) B15ST1 well tested oil at an average rate of 8,769 bbls/d and zero barrels of water per day ("bwpd") over a 48-hour period at a flowing wellhead pressure of 900 kpa (130 psi) on a 100% open choke (130 mm or 5.1 inch diameter) with applied gas-lift of 22,000 m3/d (775 mcf/d). The well was estimated to be flowing with a 30% drawdown of reservoir pressure.

B16ST2 well tested oil at an average rate of 7,600 bbls/d and 770 bwpd over a 36-hour period at a flowing wellhead pressure of 900 kpa (130 psi) on a 100% open choke (130 mm or 5.1 inch diameter) with applied gas-lift of 45,000 m3/d (1,590 mcf/d). The well was estimated to be flowing with a 15% drawdown of reservoir pressure.

(3) Estimated proved and proved plus probable reserves as evaluated by GLJ Petroleum Consultants Ltd. (“GLJ”) in a report dated February 7, 2019 with an effective date of December 31, 2018 (the “2018 GLJ Reserves Report”).

(4) F&D (finding and development) and FD&A (finding, development and acquisition) costs are used as a measure of capital efficiency and are calculated by dividing the applicable capital expenditures for the period, including the change in undiscounted FDC (future development capital), by the change in the reserves, incorporating revisions and production, for the same period.

(5) Operating Recycle Ratio is a measure of capital efficiency calculated by dividing the Operating Netback by the cost of adding reserves (F&D cost). Operating Netback is calculated as sales less royalties, operating expense, transportation costs, PRRT and realized hedging gains and losses presented on a per unit basis.

(6) Vermilion retained GLJ to conduct an independent resource evaluation dated February 7, 2019 to assess contingent and prospective resources across all of the Company’s key operating regions with an effective date of December 31, 2018 (the “GLJ 2018 Resources Report”). The aggregate associated chance of development for each of the low, best and high estimate for contingent resources in the Development Pending category are 82%, 81% and 81%, respectively. The aggregate associated chance of commerciality for each of the low, best and high estimate for prospective resources in the Prospect category are 24%, 23% and 24%, respectively. There is uncertainty that it will be commercially viable to produce any portion of the resources. Project maturity subclass development pending is defined as contingent resources where resolution of the final conditions for development is being actively pursued (high chance of development. Project maturity subclass development unclarified is defined as contingent resources when the evaluation is incomplete and there is ongoing activity to resolve any risks or uncertainties. Prospective resources are defined as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from unknown accumulations by application of future development projects. There is no certainty that it will be commercially viable to produce any portion of the contingent resources or that Vermilion will produce any portion of the volumes currently classified as contingent resources. There is no certainty that any portion of the prospective resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources or that Vermilion will produce any portion of the volumes currently classified as prospective resources. Please refer to Vermilion's 2018 Annual Information Form for further information on Vermilion’s contingent resources and prospectus resources.

($M except as indicated)	Q4 2018	Q3 2018	Q4 2017	2018	2017
Financial					
Petroleum and natural gas sales	**456,939**	508,411	317,341	**1,678,117**	1,098,838
Fund flows from operations	**222,342**	260,705	181,253	**838,652**	602,565
Fund flows from operations ($/basic share) (1)	**1.46**	1.71	1.49	**5.96**	5.00
Fund flows from operations ($/diluted share) (1)	**1.44**	1.69	1.47	**5.89**	4.92
Net earnings (loss)	**323,373**	(15,099)	8,645	**271,650**	62,258
Net earnings (loss) ($/basic share)	**2.12**	(0.10)	0.07	**1.93**	0.52
Capital expenditures	**163,580**	146,185	74,303	**518,214**	320,449
Acquisitions	**2,689**	198,173	3,048	**1,759,425**	27,637
Asset retirement obligations settled	**6,562**	2,986	3,216	**15,765**	9,334
Cash dividends ($/share)	**0.690**	0.690	0.645	**2.715**	2.580
Dividends declared	**105,310**	105,192	78,653	**388,111**	311,397
% of fund flows from operations	**47%**	40%	43%	**46%**	52%
Net dividends (1)	**100,195**	100,872	56,836	**339,060**	200,904
% of fund flows from operations	**45%**	39%	31%	**40%**	33%
Payout (1)	**270,337**	250,043	134,355	**873,039**	530,687
% of fund flows from operations	**122%**	96%	74%	**104%**	88%
Net debt	**1,929,529**	2,034,086	1,371,790	**1,929,529**	1,371,790
Ratio of net debt to annualized fund flows from operations	**2.17**	1.95	1.89	**2.30**	2.28
Operational					
Production					
Crude oil and condensate (bbls/d)	**47,678**	47,152	27,830	**39,182**	27,721
NGLs (bbls/d)	**7,815**	6,839	5,279	**6,366**	4,194
Natural gas (mmcf/d)	**276.77**	253.38	238.27	**250.33**	216.64
Total (boe/d)	**101,621**	96,222	72,821	**87,270**	68,021
Average realized prices					
Crude oil and condensate ($/bbl)	**66.19**	85.84	74.12	**79.16**	67.00
NGLs ($/bbl)	**25.69**	27.97	29.28	**26.33**	25.00
Natural gas ($/mcf)	**5.83**	5.35	5.23	**5.45**	4.91
Production mix (% of production)					
% priced with reference to WTI	**37%**	37%	21%	**32%**	20%
% priced with reference to Dated Brent	**18%**	18%	24%	**20%**	26%
% priced with reference to AECO	**26%**	26%	25%	**26%**	25%
% priced with reference to TTF and NBP	**19%**	19%	30%	**22%**	29%
Netbacks ($/boe)					
Operating netback (1)	**27.58**	34.85	30.77	**31.59**	29.24
Fund flows from operations netback	**23.79**	29.69	27.13	**26.47**	24.34
Operating expenses	**12.04**	11.13	9.76	**11.26**	9.79
Average reference prices					
WTI (US $/bbl)	**58.81**	69.50	55.40	**64.77**	50.95
Edmonton Sweet index (US $/bbl)	**32.51**	62.68	54.26	**53.65**	48.49
Saskatchewan LSB index (US $/bbl)	**44.03**	63.35	54.04	**56.46**	47.85
Dated Brent (US $/bbl)	**67.76**	75.27	61.39	**71.04**	54.27
AECO ($/mcf)	**1.56**	1.19	1.69	**1.50**	2.16
NBP ($/mcf)	**11.03**	10.95	8.70	**10.35**	7.49
TTF ($/mcf)	**10.91**	10.92	8.36	**10.23**	7.43
Average foreign currency exchange rates					
CDN $/US $	**1.32**	1.31	1.27	**1.30**	1.30
CDN $/Euro	**1.51**	1.52	1.50	**1.53**	1.46
Share information ('000s)					
Shares outstanding - basic	**152,704**	152,497	122,119	**152,704**	122,119
Shares outstanding - diluted (1)	**156,173**	155,747	125,140	**156,173**	125,140
Weighted average shares outstanding - basic	**152,588**	152,432	121,858	**140,619**	120,582
Weighted average shares outstanding - diluted (1)	**153,880**	153,839	123,450	**142,335**	122,408

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

Message to Shareholders

In 2018, we drilled a total of 148.9 net wells and completed four acquisitions within our existing core areas, including the acquisition of Spartan Energy during Q2 2018, making this our most active year ever in terms of both organic and M&A activity. As a result, we delivered record annual production of 87,270 boe/d, representing a year-over-year increase of 28%, or 10% on a per share basis. Similarly, we increased our proved plus probable reserves by 63% to 488.1 mmboe(3), reflecting a year-over-year increase of 31% on a per share basis.

Our 2018 acquisitions added high netback, low decline and free cash flow(1) generating producing assets while also significantly expanding our future project inventory. We are very disciplined in our M&A approach and apply a rigorous strategic framework, comprehensive technical evaluation methodology, and consistent decision criteria for any assets that we consider in our three operating regions. Prior to 2018, we had been less active in M&A in North America due to the overly competitive nature of the North American market and consequent lower M&A returns as compared to Europe. However, market conditions became more favourable under our criteria in North America in 2018, and we were able to opportunistically conclude the Spartan acquisition, a Saskatchewan/Manitoba waterflood purchase, a Powder River Basin stacked zone land and production acquisition, and the consolidation of additional Corrib interest. These important acquisitions enhanced our margins, reduced risk in our operating and financial profiles, expanded our development project inventory, increased our operating control, and diversified our asset base away from Alberta, with its particularly-challenged product pricing. As a result of our organic and acquisition activities, we generated a ROCE of 9% in 2018, compared to our five-year average ROCE of 4%.

We achieved a significant operational milestone in Q4 2018 as our production exceeded 100,000 boe/d for the first time in our history. Q4 2018 production increased 6% from the prior quarter to an average of 101,621 boe/d, primarily as a result of organic activities which were aided by a full quarter of the Powder River Basin acquisition and a minor contribution from our increased ownership in Corrib. Looking forward, we are pleased with the continued expansion of project inventory arising from our acquisition of Spartan. As we noted at our Investor Day in November 2018, we have increased our internally-estimated drilling inventory from the Spartan assets by approximately 50% to over 1,500 locations. At our Investor Day, we also related that we have internally-estimated the potential for approximately 60 mmbbls of net waterflood recovery potential on the Spartan assets, which is a project class we did not count in our original evaluation of the Spartan deal. Our year-end reserve and resources reports(6) recognizes 11.8 mmboe of 2P reserves and 30.0 mmboe of best-estimate contingent resources, respectively, for the new waterflood projects that came with Spartan.

Our international diversification provided a significant strategic advantage to Vermilion in Q4 2018. Oil prices weakened during Q4 2018, especially Canadian benchmarks, as differentials for both heavy and light oil widened substantially due to a combination of factors which included above average refinery turnaround activity in PADD 2 and resulting high storage levels in western Canada. While Vermilion's Canadian oil production was affected by these wider differentials, it was impacted to a lesser degree than Alberta light and heavy oil, as our Alberta condensate and Saskatchewan light oil displayed relative pricing advantages over the Alberta black oil products. This is most evident when comparing the Saskatchewan LSB index price versus the Edmonton Sweet (MSW) index price. During Q4 2018, LSB traded at an US$11.52/bbl premium over MSW, compared to a US$0.22/bbl discount in Q4 2017. Approximately 41% of our total 2019 oil production is indexed to LSB while only 8% is indexed to MSW. In additional contrast, Brent oil traded at nearly a US$9/bbl premium over WTI and European natural gas traded at an approximate $9.40/mcf premium over AECO during Q4 2018. Approximately 36% of our total 2019 oil production is price referenced to Brent while roughly 45% of our total 2019 natural gas production is price referenced to European gas benchmarks.

Despite the volatile commodity prices, we delivered strong financial results in Q4 2018 with FFO of $222 million ($1.46/basic share(1)) and net earnings of $323 million ($2.12/basic share). Realized hedging losses were $28 million in Q4 2018. We estimate that cash dividends will constitute approximately $400 million in 2019. Our capital budget of $530 million for 2019 is designed to deliver a production range of 101,000 to 106,000 boe/d, resulting in year-over-year production per share growth of 8% at the mid-point of guidance. At current differentials and using the current commodity strip for Brent, WTI and European natural gas, we estimate that we will be more than self-funded for our dividends and capital program for 2019, with excess cash generation earmarked for further debt reduction. As we have noted in the past, we have significant flexibility in our capital program and could reduce capital spending if commodity prices weaken substantially. In that event, we would reduce our growth capital first in order to protect the balance sheet and the dividend. We believe this level of organic growth combined with a dividend yield over 8% represents an attractive option for investors.

Europe

In France, Q4 2018 production averaged 11,454 boe/d, which was up slightly from the prior quarter. Production from our 2018 three (3.0 net) well drilling program in the Champotran field continued to outperform expectations, contributing 725 boe/d of production in the fourth quarter.

In the Netherlands, Q4 2018 production averaged 8,749 boe/d, an increase of 17% from the prior quarter. The increase is primarily due to the benefit of a full quarter contribution from the Eesveen-02 well (60% working interest), which we brought on production late in the third quarter at a restricted rate of 10 mmcf/d net.

In Ireland, production from the Corrib Project averaged 52 mmcf/d (8,672 boe/d) in Q4 2018, an increase of 1% from the prior quarter. On November 30, we assumed operatorship of the Corrib Project and completed the transfer of SEPIL along with an incremental 1.5% working interest in the Corrib Project to Vermilion from Nephin Energy Holdings Limited, a wholly owned subsidiary of CPPIB. Cash consideration at closing was $9 million, which was more than offset by the assumption of $15 million in positive net working capital as a result of the acquisition. Integration of the staff, processes and systems have been completed, and we welcome the addition of former-Shell employees to Vermilion. Most importantly, Vermilion now has operating control of the Corrib Project, bringing the proportion of our production that we operate to approximately 90% on a worldwide basis.

In Germany, production in Q4 2018 averaged 3,736 boe/d, an increase of 7% from the prior quarter, primarily due to the restoration of gas processing at a non-operated gas processing facility during the third quarter. During the fourth quarter, we completed site construction for the Burgmoor Z5 well (46% working interest) and have secured all drilling permits necessary to proceed. Drilling is expected to commence by the end of Q1 2019.

In Central and Eastern Europe ("CEE"), production averaged 477 boe/d in Q4 2018, an increase of 145% over the prior quarter due to production from the well drilled earlier in 2018 on the South Battonya concession in Hungary. In Croatia, we acquired an additional 150 linear kilometres of 2D seismic data in our DR-04 license to expand on the first phase of 2D seismic data we acquired in Q2 2018. We continued to progress the permitting activities associated with our 10.0 (7.0 net) well program for 2019 in the CEE business unit, and have received all the permits for our second well in Hungary. In Slovakia, we were granted the Topolcany license which is adjacent to our existing Trnava license. The Topolcany license is owned 50/50 with our partner in Slovakia (NAFTA) and adds 301,000 acres (150,500 net) to our portfolio.

North America

In Canada, production averaged a record 60,814 boe/d in Q4 2018, representing an increase of 6% from the previous quarter. The increase was primarily due to strong operating performance and new well completions in both Saskatchewan and Alberta. The strong production results were partially restrained by a system-wide power outage in Saskatchewan in December, which reduced production volumes by approximately 500 boe/d for the quarter. We drilled or participated in 72 (44.1 net) wells and brought on production 86 (56.6 net) wells in the fourth quarter. We executed a five rig program in Saskatchewan, drilling or participating in 61 (34.8 net) wells across our combined Spartan and legacy land bases. In Alberta, we drilled nine (7.3 net) Mannville wells and two (2.0 net) long-reach Cardium wells.

In the United States, Q4 2018 production averaged 3,545 boe/d, an increase of 19% from the prior quarter, due to a full quarter of production associated with the Powder River Basin acquisition completed in Q3. We drilled and completed our first (1.0 net) well on the newly acquired Hilight assets late in the fourth quarter. Production from this well commenced in mid-December. We elected to use a rod pump artificial lift system on this well, which offers lower pump displacement than previously-utilized electrical submersible pumps on new wells at Hilight, but reduces sand flowback and pump failure frequency. As a result, the current rate is 290 boe/d (86% oil) and is increasing as the well cleans up.

Australia

In Australia, production averaged 4,174 bbl/d in Q4 2018, down 11% from the previous quarter primarily due to a planned shutdown for maintenance and other downtime which was required to allow drilling of two new wells. We began drilling the two wells in early November 2018 and completed the wells in late January 2019. These were the most technically challenging wells ever executed at Vermilion. Both wells were drilled at vertical depths of approximately 650 meters, but with measured depths of 4,960 meters and 3,697 meters for the B15 and B16 wells respectively, making these some of the most extreme extended reach wells at shallow depth in the world. The B15 well also featured an approximately 180 degree turn to allow drainage of oil trapped against the updip bounding fault for the Wandoo field. We achieved our reservoir and mechanical objectives on both wells, and the wells were successfully tested in February 2019. The B15 well tested at an oil rate of 8,800 bbl/d over a 48-hour period and the B16 well tested at an oil rate of 7,600 bbl/d over a 36-hour period[(2)]. We plan to intermittently produce the new wells at restricted rates to maximize long-term value. The total cost of the program was $75 million, which is approximately $10 million over budget due to slower-than-expected drilling in the vertical sections of the wells, lost circulation in part of the B15 horizontal section along the bounding fault, and a cyclone which required down-manning of the drilling rig for approximately a week.

Commodity Hedging

Vermilion hedges to manage commodity price exposures and increase the stability of cash flows, providing additional certainty with regard to the execution of our dividend and capital programs. In aggregate, we currently have 34% of our expected net-of-royalty production hedged for Q1 2019. Over half of the Q1 2019 corporate hedge position consists of two-way collars and three-way structures, which allow participation in price increases, up to contract ceilings.

We have currently hedged 67% of anticipated European natural gas volumes for Q1 2019. In view of the compelling longer-term forward market for European natural gas, we have also hedged 66% and 38% of our anticipated full-year 2019 and 2020 volumes at prices which will provide for strong project economics and free cash flows. As of February 26, 2019, 29% of our Q1 2019, and 21% of our full year 2019 oil production is hedged. We will continue to add to our hedge positions in all products as suitable opportunities arise. For Q1 2019, 30% of our North American natural gas production is priced away from AECO, by virtue of diversification hedges to sell at the SoCal Border, Chicago and Henry Hub for a portion of our Alberta gas production, and because 14% of our production comes from Saskatchewan and Wyoming.

Environmental, Social and Governance ("ESG")

Vermilion was named to the CDP Climate Leadership Level (A-) for the second consecutive year in 2018. We were the only Canadian oil and gas company and one of only two North American oil and gas companies to receive this designation, ranking Vermilion in the top 5% of oil and gas companies globally. We are proud of this achievement and believe this ranking is a reflection of our responsible operating practices and positive track record of reducing emissions on our oil and gas assets. We will continue to seek new and innovative ways to improve our overall operating performance while reducing the emission intensity of our assets.

In February 2019, we were a finalist for the Finance and Sustainability Initiative's ("FSI") award for Best Sustainability Report in the Non-Renewable Resources - Oil and Gas category for our 2017 Sustainability Report. Last year, we received this award for our 2016 Sustainability Report. Based in Montreal, the FSI is a non-profit organization dedicated to promoting sustainable finance and, more specifically, responsible investment to financial institutions, companies, and universities. Sustainability reports were graded on a number of criteria, including transparency and balance, reliability and completeness, and the use of ESG materiality. We firmly believe in the importance of measuring and understanding our current environmental impact. Furthermore, we believe the integration of sustainability principles into our business strategy increases shareholder returns and reduces long-term risks to our business model. Our recently published 2018 Sustainability Report is available now on our corporate website at http://sustainability.vermilionenergy.com.

Vermilion ranked second within the oil and gas sector, and among the top quartile of companies in the S&P/TSX Composite Index in the annual Globe and Mail Board Games evaluation for 2018. The evaluation uses a rigorous set of governance criteria that goes beyond minimum mandatory rules imposed by regulators and validates our commitment to, and execution of, best governance practices.

2018 Reserves and Resources

In 2018 we significantly increased our reserves and resources through a combination of development and acquisition activities. Based on the 2018 GLJ Reserves Report, our 2P reserves increased 63% from year-end 2017 to 488.1[3] mmboe, while our 1P reserves increased 69% from year-end 2017 to 298.2[3] mmboe in 2018. PDP reserves increased 55% from year-end 2017 to 192.1[3] mmboe. Our PDP reserves represent 64% of our 1P reserves.

The following table provides a summary of company interest reserves by reserve category and country on an oil equivalent basis. Please refer to Vermilion's 2018 Annual Information Form for detailed by product type information.

BOE (Mboe)	Proved Developed Producing	Proved Developed Non-Producing	Proved Undeveloped	Proved	Probable	Proved Plus Probable
Australia	8,048	1,620	—	9,668	4,812	**14,480**
Canada	103,992	9,496	68,451	181,939	102,897	**284,836**
France	37,596	441	5,429	43,466	20,452	**63,918**
Germany	9,879	2,043	1,069	12,991	12,744	**25,735**
Hungary	131	—	—	131	59	**191**
Ireland	13,093	—	—	13,093	7,482	**20,575**
Netherlands	7,629	3,469	705	11,802	10,395	**22,196**
United States	11,705	—	13,442	25,147	31,068	**56,214**
Vermilion	**192,073**	**17,069**	**89,096**	**298,237**	**189,909**	**488,145**

Through development activities, we replaced 187% of 2P reserves, 157% of 1P reserves and 130% of PDP reserves, respectively. Including acquisitions, we replaced 695% of 2P reserves, 481% of 1P reserves and 314% of PDP reserves, respectively.

Our Operating Recycle Ratio[5] (including FDC) at the 2P level increased to 4.1x in 2018, compared to 2.8x in 2017, as a result of higher operating netbacks and a significant decrease to our F&D costs (including FDC). Organic F&D costs (including FDC) decreased 26% in 2018 to $7.79/boe, compared to $10.57/boe in 2017. These metrics remain strong relative to historical industry averages, and reflect the significant improvement in our capital efficiencies over the last several years.

The following table summarizes the finding and development costs and associated operating recycle ratios by reserve category for the year ended December 31, 2018:

	2018			3-Year Average		
	PDP	1P	2P	PDP	1P	2P
Finding and Development Costs, including FDC (F&D)[3] ($/boe)	$15.65	$13.49	$7.79	$11.94	$10.96	$7.85
Finding, Development and Acquisition Costs, including FDC (FD&A)[3] ($/boe)	$23.92	$19.95	$14.99	$18.71	$16.87	$13.16
F&D Operating Recycle Ratio[4] (x)	2.0	2.3	4.1	2.5	2.7	3.8
FD&A Operating Recycle Ratio[4] (x)	1.3	1.6	2.1	1.6	1.8	2.2

In addition to increasing our reserve base, we pursued various initiatives to expand our resource base to support our longer-term growth profile. According to the 2018 GLJ Resources Report, risked low, best, and high estimates for our contingent resources in the Development Pending category we evaluated as 156[6] mmboe, 240[6] mmboe, and 334[6] mmboe, respectively. The 2018 GLJ Resources Report also indicates risked low, best, and high estimates for contingent resources in the Development Unclarified category of 11[6] mmboe, 37[6] mmboe, and 53[6] mmboe, respectively. Over 86% of our risked contingent resources reside in the Development Pending category. Prospective resources were assessed at risked low, best and high estimates of 55 [6] mmboe, 161[6] mmboe, and 284[6] mmboe, respectively. Our contingent and prospective resource bases remain a source of reserve additions, with 17 mmboe of contingent resources converted to 2P reserves during 2018.[6]

The following table provides a reconciliation of changes in reserves by reserve category and country. Please refer to Vermilion's 2018 Annual Information Form for detailed by product type information.

1P (Mboe)	Australia	Canada	France	Germany	Hungary	Ireland	Netherlands	United States	Vermilion
December 31, 2017	10,915	81,388	42,094	12,640	—	13,634	10,347	5,613	**176,631**
Discoveries	—	—	—	—	193	—	—	—	**193**
Extensions & Improved Recovery	—	31,289	2,249	673	—	—	256	1,359	**35,826**
Technical Revisions	393	6,977	3,244	979	—	1,575	206	298	**13,671**
Acquisitions	—	81,328	—	—	—	1,241	3,838	18,604	**105,012**
Dispositions	—	(134)	—	—	—	—	—	—	**(134)**
Economic Factors	—	(1,162)	40	17	—	—	(4)	(1)	**(1,110)**
Production	(1,640)	(17,750)	(4,160)	(1,319)	(62)	(3,356)	(2,839)	(727)	**(31,853)**
December 31, 2018	**9,668**	**181,938**	**43,467**	**12,990**	**131**	**13,094**	**11,804**	**25,146**	**298,236**

2P (Mboe)	Australia	Canada	France	Germany	Hungary	Ireland	Netherlands	United States	Vermilion
December 31, 2017	15,565	139,294	64,189	24,496	—	22,199	17,863	14,969	**298,575**
Discoveries	—	—	—	—	252	—	—	—	**252**
Extensions & Improved Recovery	—	37,024	1,934	2,158	—	—	2,201	6,265	**49,581**
Technical Revisions	555	5,573	2,713	393	—	(253)	16	1,880	**10,875**
Acquisitions	—	121,537	—	—	—	1,986	4,973	33,828	**162,324**
Dispositions	—	(227)	—	—	—	—	—	—	**(227)**
Economic Factors	—	(616)	(758)	5	—	—	(14)	(2)	**(1,383)**
Production	(1,640)	(17,750)	(4,160)	(1,319)	(62)	(3,356)	(2,839)	(727)	**(31,853)**
December 31, 2018	**14,480**	**284,835**	**63,918**	**25,733**	**190**	**20,576**	**22,200**	**56,213**	**488,145**

Additional information about our 2018 GLJ Reserves Report and GLJ 2018 Resources Report can be found in our 2018 Annual Information Form on our website at www.vermilionenergy.com and on SEDAR at www.sedar.com.

(signed "Anthony Marino")

Anthony Marino
President & Chief Executive Officer
February 27, 2019

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

(2) B15ST1 well tested oil at an average rate of 8,769 bbls/d and zero barrels of water per day ("bwpd") over a 48-hour period at a flowing wellhead pressure of 900 kpa (130 psi) on a 100% open choke (130 mm or 5.1 inch diameter) with applied gas-lift of 22,000 m3/d (775 mcf/d). The well was estimated to be flowing with a 30% drawdown of reservoir pressure.

B16ST2 well tested oil at an average rate of 7,600 bbls/d and 770 bwpd over a 36-hour period at a flowing wellhead pressure of 900 kpa (130 psi) on a 100% open choke (130 mm or 5.1 inch diameter) with applied gas-lift of 45,000 m3/d (1,590 mcf/d). The well was estimated to be flowing with a 15% drawdown of reservoir pressure.

(3) Estimated proved and proved plus probable reserves attributable to the assets as evaluated by GLJ Petroleum Consultants Ltd. ("GLJ") in a report dated February 7, 2019 with an effective date of December 31, 2018 (the "2018 GLJ Reserves Report").

(4) F&D (finding and development) and FD&A (finding, development and acquisition) costs are used as a measure of capital efficiency and are calculated by dividing the applicable capital expenditures for the period, including the change in undiscounted future development capital ("FDC"), by the change in the reserves, incorporating revisions and production, for the same period.

(5) Operating Recycle Ratio is a measure of capital efficiency calculated by dividing the Operating Netback by the cost of adding reserves (F&D cost). Operating Netback is calculated as sales less royalties, operating expense, transportation costs, PRRT and realized hedging gains and losses presented on a per unit basis.

(6) Vermilion retained GLJ to conduct an independent resource evaluation dated February 7, 2019 to assess contingent and prospective resources across all of the Company's key operating regions with an effective date of December 31, 2018 (the "GLJ 2018 Resources Report"). The aggregate associated chance of development for each of the low, best and high estimate for contingent resources in the Development Pending category are 82%, 81% and 81%, respectively. The aggregate associated chance of commerciality for each of the low, best and high estimate for prospective resources in the Prospect category are 24%, 23% and 24%, respectively. There is uncertainty that it will be commercially viable to produce any portion of the resources. Project maturity subclass development pending is defined as contingent resources where resolution of the final conditions for development is being actively pursued (high chance of development. Project maturity subclass development unclarified is defined as contingent resources when the evaluation is incomplete and there is ongoing activity to resolve any risks or uncertainties. Prospective resources are defined as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from unknown accumulations by application of future development projects. There is no certainty that it will be commercially viable to produce any portion of the contingent resources or that Vermilion will produce any portion of the volumes currently classified as contingent resources. There is no certainty that any portion of the prospective resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources or that Vermilion will produce any portion of the volumes currently classified as prospective resources. Please refer to Vermilion's 2018 Annual Information Form for further information on Vermilion's contingent resources and prospectus resources.

Management's Discussion and Analysis

The following is Management's Discussion and Analysis ("MD&A"), dated February 27, 2019, of Vermilion Energy Inc.'s ("Vermilion", "we", "our", "us" or the "Company") operating and financial results as at and for the three months and year ended December 31, 2018 compared with the corresponding periods in the prior year.

This discussion should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018 and 2017, together with the accompanying notes. Additional information relating to Vermilion, including its Annual Information Form, is available on SEDAR at www.sedar.com or on Vermilion's website at www.vermilionenergy.com.

The audited consolidated financial statements for the year ended December 31, 2018 and comparative information have been prepared in Canadian dollars and in accordance with International Financial Reporting Standards ("IFRS" or, alternatively, "GAAP") as issued by the International Accounting Standards Board ("IASB").

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

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

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

Condensate Presentation

We report our condensate production in Canada and the Netherlands business units within the crude oil and condensate production line. We believe that this presentation better reflects the historical and forecasted pricing for condensate, which is more closely correlated with crude oil pricing than with pricing for propane, butane and ethane (collectively "NGLs" for the purposes of this report).

Guidance

On October 30, 2017, we released our 2018 capital expenditure guidance of $315 million and associated production guidance of between 74,500 to 76,500 boe/d. On January 15, 2018, we increased our capital expenditure guidance to $325 million and production guidance to between 75,000 to 77,500 boe/d to reflect the post-closing impact of the acquisition of a private southeast Saskatchewan and southwest Manitoba light oil producer. On April 16, 2018, we increased our capital expenditure guidance to $430 million and production guidance to between 86,000 to 90,000 boe/d to reflect the post-closing impact of the acquisition of Spartan Energy Corp. On July 30, 2018, we increased our capital expenditure guidance to $500 million to reflect the acceleration of our Australia drilling campaign into Q4 2018, and to a lesser extent to account for the impact of foreign exchange fluctuations on our Canadian dollar capital levels. On October 25, 2018, we increased our capital expenditure guidance to $510 million to reflect additional capital activity associated with the assets acquired in the Powder River Basin in August of 2018. Actual 2018 capital spending of $518 million was within 2% of our guidance and 2018 average production of 87,270 boe/d was within 1% of the mid-point of our guidance range.

On October 25, 2018, we released our 2019 capital budget and related guidance. The 2019 total budget and production guidance remain unchanged, although we have deferred some activity to later in the year and reallocated capital between business units, the breakdown of which can be found in our corporate presentation located on our website.

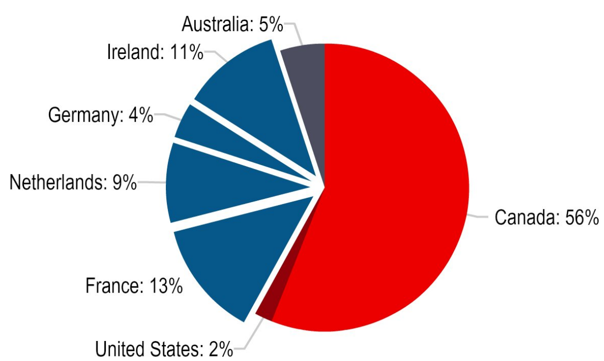
The following table summarizes our guidance:

	Date	Capital Expenditures ($MM)	Production (boe/d)
2018 Guidance			
2018 Guidance	October 30, 2017	315	74,500 to 76,500
2018 Guidance	January 15, 2018	325	75,000 to 77,500
2018 Guidance	April 16, 2018	430	86,000 to 90,000
2018 Guidance	July 30, 2018	500	86,000 to 90,000
2018 Guidance	October 25, 2018	510	86,000 to 90,000
2018 Actual Results		518	87,270
2019 Guidance			
2019 Guidance	October 25, 2018	530	101,000 to 106,000

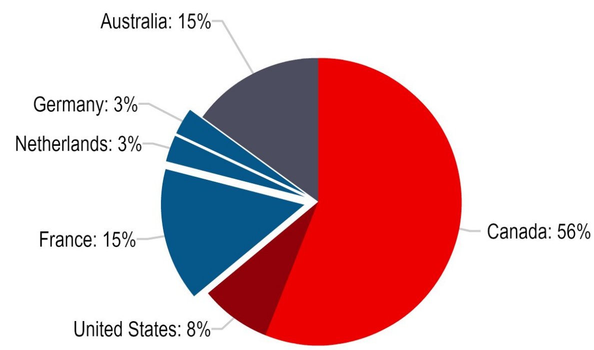
Vermilion's Business

Vermilion is a Calgary, Alberta based international oil and gas producer focused on the acquisition, exploration, development, and optimization of producing properties in North America, Europe, and Australia. We manage our business through our Calgary head office and our international business unit offices. This MD&A separately discusses each of our business units in addition to our corporate segment.

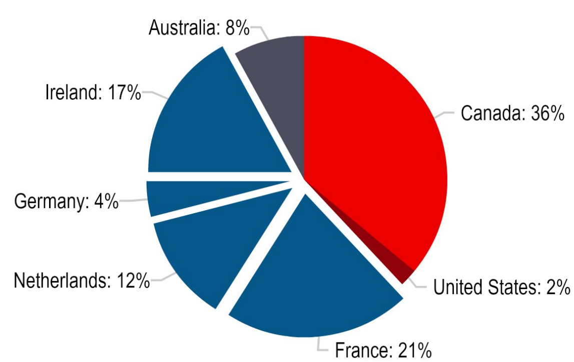
2018 production of 87,270 boe/d by business unit



2018 capital expenditures of $518MM by business unit



2018 fund flows from operations of $839MM by business unit



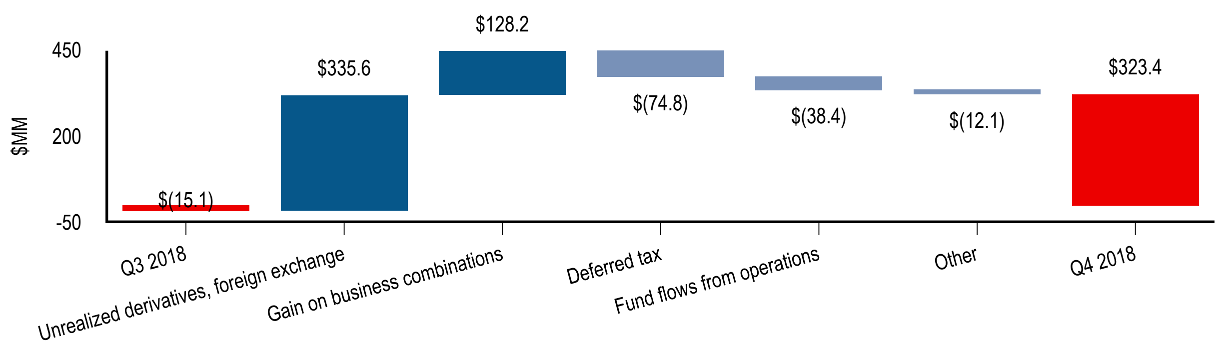
Consolidated Results Overview

	Q4 2018	Q3 2018	Q4 2017	Q4/18 vs. Q3/18	Q4/18 vs. Q4/17	2018	2017	2018 vs. 2017
Production								
Crude oil and condensate (bbls/d)	**47,678**	47,152	27,830	1%	71%	**39,182**	27,721	41%
NGLs (bbls/d)	**7,815**	6,839	5,279	14%	48%	**6,366**	4,194	52%
Natural gas (mmcf/d)	**276.77**	253.38	238.27	9%	16%	**250.33**	216.64	16%
Total (boe/d)	**101,621**	96,222	72,821	6%	40%	**87,270**	68,021	28%
Sales								
Crude oil and condensate (bbls/d)	**47,620**	46,368	27,638	3%	72%	**38,741**	27,483	41%
NGLs (bbls/d)	**7,815**	6,839	5,279	14%	48%	**6,366**	4,194	52%
Natural gas (mmcf/d)	**276.77**	253.38	238.27	9%	16%	**250.33**	216.64	16%
Total (boe/d)	**101,563**	95,437	72,628	6%	40%	**86,829**	67,784	28%
Build in inventory (mbbls)	**5**	73	18			**160**	87	
Financial metrics								
Fund flows from operations ($M)	**222,342**	260,705	181,253	(15)%	23%	**838,652**	602,565	39%
Per share ($/basic share)	**1.46**	1.71	1.49	(15)%	(2)%	**5.96**	5.00	19%
Net earnings	**323,373**	(15,099)	8,645	N/A	3,641%	**271,650**	62,258	336%
Per share ($/basic share)	**2.12**	(0.10)	0.07	N/A	2,929%	**1.93**	0.52	271%
Net debt ($M)	**1,929,529**	2,034,086	1,371,790	(5)%	41%	**1,929,529**	1,371,790	41%
Cash dividends ($/share)	**0.690**	0.690	0.645	—%	7%	**2.715**	2.580	5%
Activity								
Capital expenditures ($M)	**163,580**	146,185	74,303	12%	120%	**518,214**	320,449	62%
Acquisitions ($M)	**2,689**	198,173	3,048			**1,759,425**	27,637	
Gross wells drilled	**73.00**	65.00	8.00			**185.00**	56.00	
Net wells drilled	**45.08**	58.97	6.00			**147.93**	46.58	

Financial performance review

Q4 2018 vs. Q3 2018

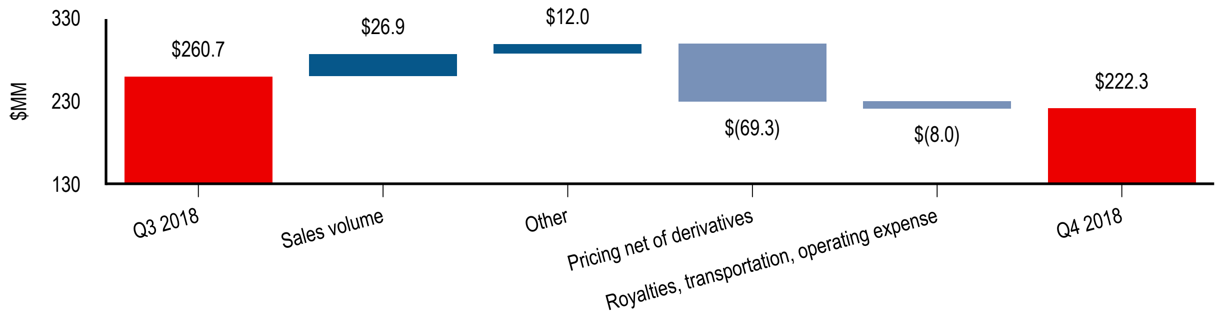
Net earnings of $323.4MM in Q4 2018 compared to a net loss of $15.1MM in Q3 2018



"Other" contains depletion and depreciation, equity based compensation, accretion, and unrealized other

- We recorded net earnings for Q4 2018 of $323.4 million ($2.12/basic share) compared to a net loss of $15.1 million ($0.10/basic share) in Q3 2018. This net earnings growth was primarily attributable to a $348.9 million increase in unrealized gains on derivative instruments and a $128.2 million gain recorded on business combinations. These increases were partially offset by a $38.4 million decrease in fund flows from operations.

15% decrease in fund flows from operations from Q3 2018 to Q4 2018

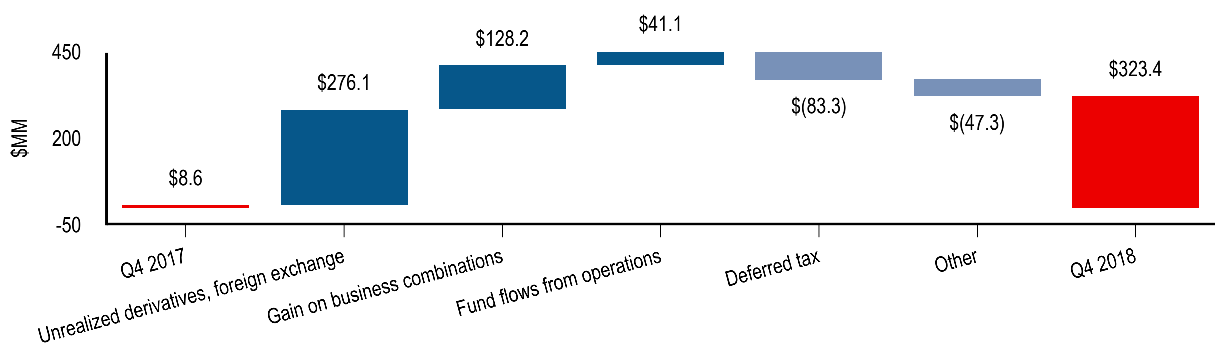


"Other" contains general and administration, corporate income taxes, interest, realized foreign exchange, and realized other

- We generated fund flows from operations of $222.3 million during Q4 2018, a decrease of 15% from Q3 2018. This quarter-over-quarter decrease was primarily due to weaker crude oil prices during the current period, including a 48% decrease in in the Edmonton sweet index. The diversified nature of our production somewhat mitigated this 48% decrease in the Edmonton sweet index as illustrated by an attenuated 23% decrease in our crude oil and condensate realized price and a 16% decrease in our consolidated realized price.

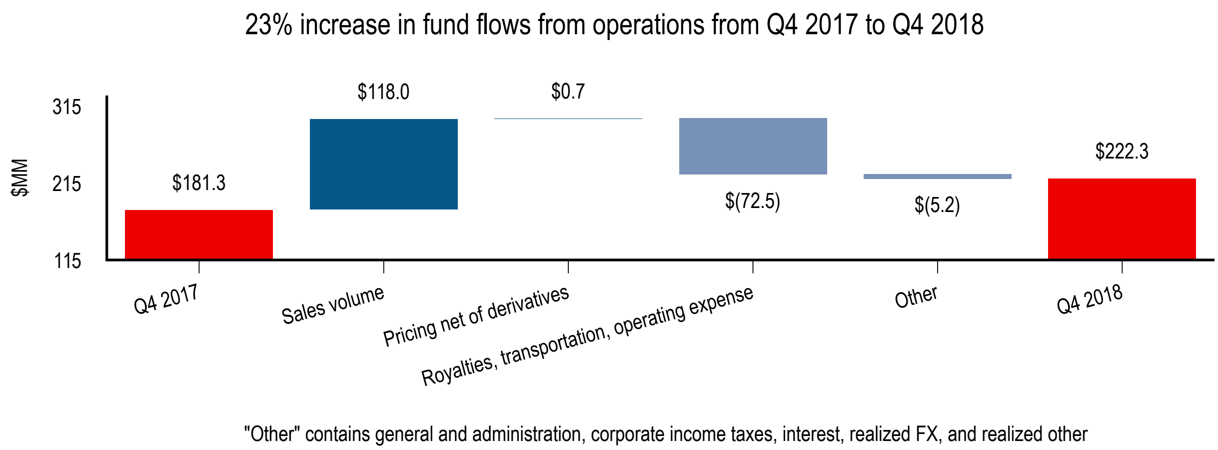
Q4 2018 vs. Q4 2017

Net earnings of $323.4MM in Q4 2018 compared to $8.6MM in Q4 2017



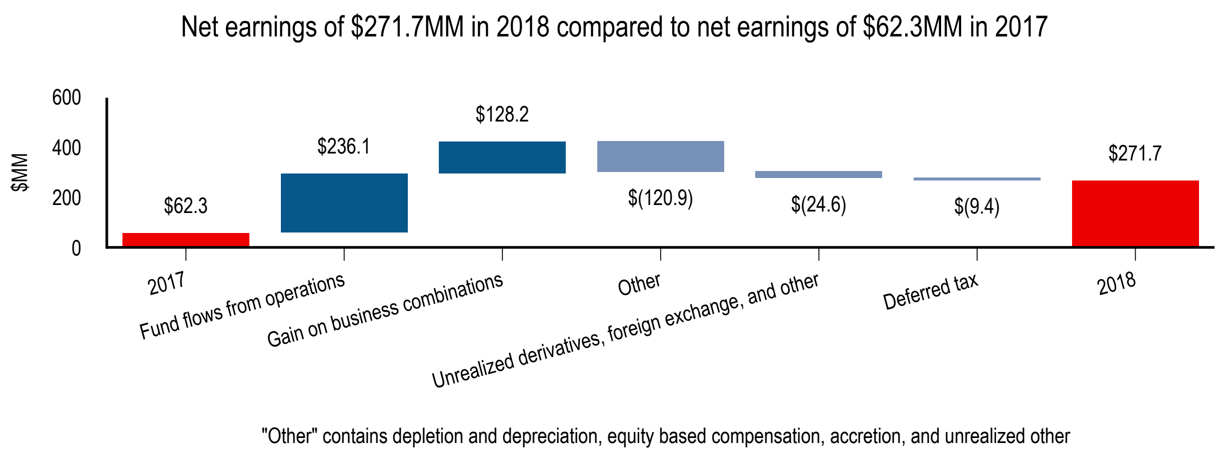
"Other" contains depletion and depreciation, equity based compensation, accretion, and unrealized other

- We recorded net earnings for Q4 2018 of $323.4 million ($2.12/basic share) compared to net earnings of $8.6 million ($0.07/basic share) in Q4 2017. The net earnings growth was the result of a 23% increase in fund flows from operations driven by increased sales volumes in Q4 2018 as compared to Q4 2017, an increase in unrealized gain on derivative instruments ($193.1 million), and a $128.2 million gain on business combinations.



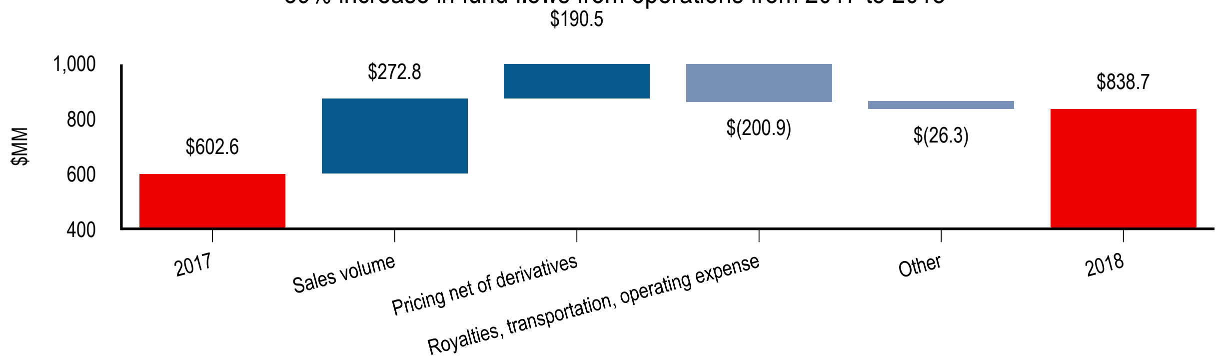
- Fund flows from operations increased 23% in Q4 2018 versus Q4 2017. This increase occurred due to higher sales volumes in Q4 2018 partially offset by increased royalties, transportation, and operating expense associated with these higher volumes.

2018 vs. 2017



- For the year ended December 31, 2018, net earnings of $271.7 million compared to net earnings of $62.3 million in 2017. The increase in net earnings primarily resulted from a year-over-year increase in fund flows from operations of $236.1 million and a gain on business combinations of $128.2 million. These increases were partially offset by increased depletion and depreciation expense resulting from higher production volumes.

39% increase in fund flows from operations from 2017 to 2018



"Other" contains general and administration, current income taxes, interest, realized foreign exchange, and realized other

- Fund flows from operations increased 39% for the year ended December 31, 2018 versus 2017 due to increased sales volumes and higher realized pricing offset by an increase in royalties, transportation and operating expense. Our consolidated realized price increased by 19% from $44.41/boe to $52.95/boe due to an increase in our relative crude oil production and stronger crude oil and European gas pricing. Our sales volumes increased by 28% due to production increases in Canada, the Netherlands, and the United States.
- On a per unit basis, fund flows from operations increased by 9% from $24.34/boe for the year ended December 31, 2017 to $26.47/boe in 2018. This increase reflects the improvement in our realized price per boe and includes a 25% decrease in per boe general and administration expenses as our overall expense decreased by 4% despite production growth. These decreases were partially offset by higher per unit costs for royalties (resulting from the stronger commodity price environment and higher royalty rates) and operating expenses. Per boe operating expenses increased by $1.47/boe from $9.79/boe in 2017 to $11.26/boe in 2018 due in part to a stronger Euro relative to the Canadian dollar in 2018 and increased expenses associated with higher value crude oil production in Canada.

Production review

Q4 2018 vs. Q3 2018

- Consolidated average production of 101,621 boe/d during Q4 2018 increased 6% versus Q3 2018. The increase in production was primarily attributable to new wells brought on production in Canada, growth in the United States through an acquisition closed in Q3 2018, and a full quarter of production from wells brought on production in Q3 2018 in the Netherlands and Hungary. These production increases were partially offset by an 11% decrease in Australia resulting from a planned shutdown of the Wandoo field for maintenance and downtime associated with drilling.

Q4 2018 vs. Q4 2017

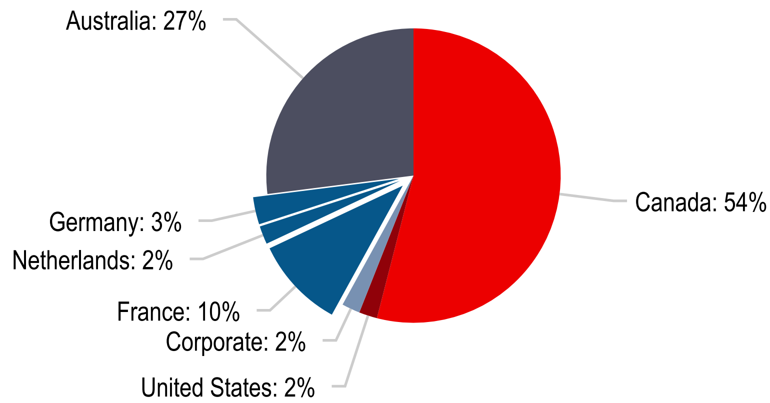
- Consolidated average production of 101,621 boe/d in Q4 2018 represented an increase of 40% from Q4 2017 due to growth in Canada and the United States. In Canada, year-over-year growth was the result of both acquisitions and continued development of our Mannville condensate-rich resource play and southeast Saskatchewan light oil development. In the United States, production growth resulted from an acquisition in Q3 2018 and organic drilling activity.

2018 vs. 2017

- For the year ended December 31, 2018, consolidated average production of 87,270 boe/d represented an increase of 28% from 2017 due to production growth in Canada, the United States, and the Netherlands. In Canada, production increased by 19,120 boe/d due to contributions from acquisitions and continued development of our Mannville condensate-rich resource play and southeast Saskatchewan light oil development. In the United States, production growth resulted from an acquisition in Q3 2018 and organic drilling activity. In the Netherlands, year-over-year production growth occurred following the receipt of production permits (the absence of which restricted production from certain wells in the comparable period in 2017).

Activity review

Q4 2018 capital expenditures of $164MM by business unit



- For the three months ended December 31, 2018, capital expenditures of $163.6 million primarily related to activity in Canada and Australia. In Canada, capital expenditures of $90.2 million included the drilling of 72.0 (44.1 net) wells, primarily in southeast Saskatchewan. In Australia, capital expenditures of $43.8 million related to the two (2.0 net) well drilling program.

Sustainability review

Dividends

- Declared dividends of $0.23 per common share per month for Q4 2018, resulting in total dividends declared of $2.715 per common share for the year ended December 31, 2018.
- In Q2 2018, we increased our monthly dividend by 7% resulting in a year-over-year increase in cash dividends. The Q2 2018 increase was our fourth dividend increase (previously Vermilion's distribution in the income trust era) since we began paying a distribution in 2003.

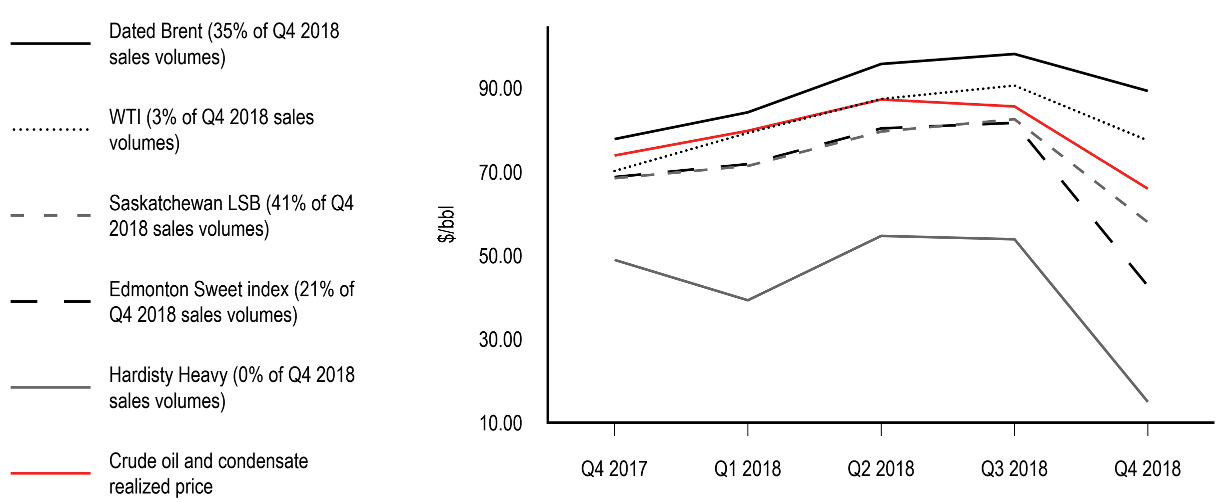
Long-term debt and net debt

- Long-term debt increased from $1.3 billion as at December 31, 2017 to $1.8 billion as at December 31, 2018. This increase was primarily a result of increased borrowings on the revolving credit facility to fund acquisitions in 2018. These increases were coupled with the impact of the stronger US dollar on our US denominated Sr. Unsecured Notes.
- Net debt increased to $1.9 billion as at December 31, 2018 from $1.4 billion at December 31, 2017, primarily due to acquisition activity in 2018, partially offset by a $115.6 million decrease in net current derivative liability at December 31, 2018 (from a net liability position of $60.9 million as at December 31, 2017 to a net asset position of $54.7 million).
- The ratio of net debt to fund flows from operations remained consistent at 2.30 (2017 - 2.28) as the increase in net debt was offset by a partial year of contribution from the acquisitions that closed in 2018.

Commodity Prices

	Q4 2018	Q3 2018	Q4 2017	Q4/18 vs. Q3/18	Q4/18 vs. Q4/17	2018	2017	2018 vs. 2017
Crude oil								
WTI ($/bbl)	**77.71**	90.83	70.43	(14)%	10%	**83.94**	66.13	27%
WTI (US $/bbl)	**58.81**	69.50	55.40	(15)%	6%	**64.77**	50.95	27%
Edmonton Sweet index ($/bbl)	**42.96**	81.92	68.98	(48)%	(38)%	**69.53**	62.94	10%
Edmonton Sweet index (US $/bbl)	**32.51**	62.68	54.26	(48)%	(40)%	**53.65**	48.49	11%
Saskatchewan LSB index ($/bbl)	**58.18**	82.79	68.70	(30)%	(15)%	**73.17**	62.10	18%
Saskatchewan LSB index (US $/bbl)	**44.03**	63.35	54.04	(30)%	(19)%	**56.46**	47.85	18%
Dated Brent ($/bbl)	**89.54**	98.37	78.05	(9)%	15%	**92.07**	70.44	31%
Dated Brent (US $/bbl)	**67.76**	75.27	61.39	(10)%	10%	**71.04**	54.27	31%
Hardisty Heavy ($/bbl)	**15.28**	54.11	49.19	(72)%	(69)%	**41.07**	45.67	(10)%
Hardisty Heavy (US $/bbl)	**11.56**	41.40	38.69	(72)%	(70)%	**31.69**	35.19	(10)%
Natural gas								
AECO ($/mcf)	**1.56**	1.19	1.69	31%	(8)%	**1.50**	2.16	(31)%
NBP ($/mcf)	**11.03**	10.95	8.70	1%	27%	**10.35**	7.49	38%
NBP (€/mcf)	**7.31**	7.20	5.81	2%	26%	**6.76**	5.12	32%
TTF ($/mcf)	**10.91**	10.92	8.36	—%	31%	**10.23**	7.43	38%
TTF (€/mcf)	**7.23**	7.18	5.58	1%	30%	**6.69**	5.07	32%
Henry Hub ($/mcf)	**4.82**	3.80	3.73	27%	29%	**4.01**	4.04	(1)%
Henry Hub (US $/mcf)	**3.65**	2.90	2.93	26%	25%	**3.09**	3.11	(1)%
Average exchange rates								
CDN $/US $	**1.32**	1.31	1.27	1%	4%	**1.30**	1.30	—%
CDN $/Euro	**1.51**	1.52	1.50	(1)%	1%	**1.53**	1.46	5%
Realized Prices								
Crude oil and condensate ($/bbl)	**66.19**	85.84	74.12	(23)%	(11)%	**79.16**	67.00	18%
NGLs ($/bbl)	**25.69**	27.97	29.28	(8)%	(12)%	**26.33**	25.00	5%
Natural gas ($/mcf)	**5.83**	5.35	5.23	9%	11%	**5.45**	4.91	11%
Total ($/boe)	**48.90**	57.90	47.49	(16)%	3%	**52.95**	44.41	19%

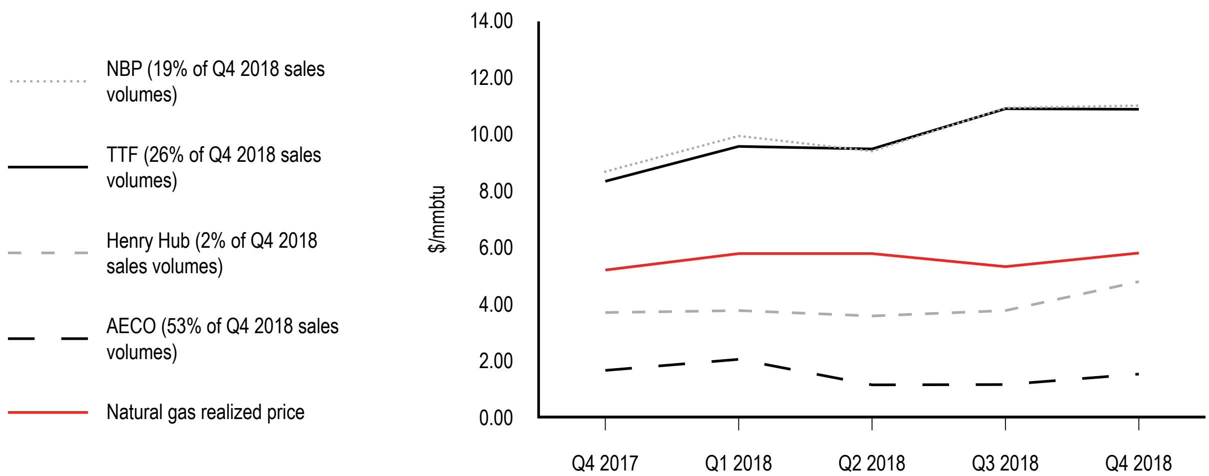
Realized crude oil and condensate price was a 54% premium to the Edmonton Sweet Index



- Crude oil prices decreased throughout Q4 2018, driven by record global production levels and macroeconomic concerns. Quarter-over-quarter, WTI and Brent decreased by 14% and 9%, respectively, in Canadian dollar terms. Despite the end-of-year weakness in 2018, for the three months and year ended December 31, 2018, WTI increased 10% and 27%, respectively, in Canadian dollar terms versus the comparable periods in the prior year. Similarly, Brent increased 15% and 31%, respectively, in Canadian dollar terms for the three months and year ended December 31, 2018 versus the comparable periods in 2017.

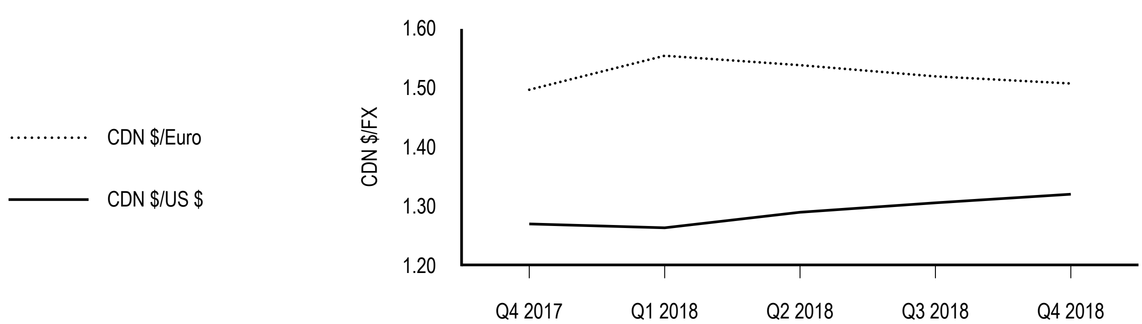
- Western Canadian takeaway capacity constraints negatively impacted differentials in Q4 2018 versus Q3 2018; the Edmonton Sweet differential widened by $19.48/bbl, the Saskatchewan LSB differential widened by $14.78/bbl, and the Hardisty WCS differential widened by $19.15/bbl.
- Vermilion's crude oil production benefits from light oil pricing and no exposure to significantly discounted heavy crude oil. Approximately 35% of our Q4 2018 crude oil and condensate production was priced at the Dated Brent index (which averaged a premium to WTI of US$8.95/bbl) while the remainder of our crude oil and condensate production was priced at the Saskatchewan LSB, Edmonton Sweet, and WTI indices. As a result, our Q4 2018 crude oil and condensate realized price of $66.19/bbl represented a 54% premium to the Edmonton Sweet index and a 333% premium to Hardisty Heavy.

Realized natural gas pricing was a $4.27/mcf premium to AECO



- European natural gas prices were relatively unchanged in Q4 2018 compared to Q3 2018. For the year ended December 31, 2018, TTF and NBP prices in Canadian dollar terms increased 38% compared to 2017. Competition from Asia for liquefied natural gas ("LNG") supply, strong demand from both the power sector and for storage injections, and surging carbon prices in the European Union, all played a role in 2018 price strength.
- Natural gas prices at AECO increased by 31% in Q4 2018 as compared to Q3 2018. While the AECO gas market continues to face egress challenges, the seasonal shift from a summer quarter to a winter quarter drove stronger domestic gas demand.
- For Q4 2018, average European natural gas prices represented a $9.41/mcf premium to AECO and a $6.15/mcf premium to Henry Hub pricing. Approximately 45% of our natural gas production in Q4 2018 benefited from this premium European pricing. As a result, our consolidated natural gas realized price was a $4.27/mcf premium to AECO and a $1.01/mcf premium to Henry Hub pricing.

Quarter-over-quarter, the Canadian dollar was relatively flat versus the Euro and USD



- For the three months ended December 31, 2018, the Canadian dollar weakened by 1% against the US dollar quarter-over-quarter. The annual average in 2018 was nearly unchanged versus 2017.
- For the three months ended December 31, 2018, the Canadian dollar strengthened by 1% against the Euro quarter-over-quarter. The annual average in 2018 was 5% weaker versus 2017.

Canada Business Unit

Overview

Production and assets focused in West Pembina near Drayton Valley, Alberta and in southeast Saskatchewan and Manitoba.

- Potential for three significant resource plays sharing the same surface infrastructure in the West Pembina region in Alberta:
  - Mannville condensate-rich gas (2,400 - 2,700m depth) - in development phase
  - Cardium light oil (1,800m depth) - in development phase
  - Duvernay condensate-rich gas (3,200 - 3,400m depth) - no investment at present
- Southeast Saskatchewan light oil development:
  - Targeting the Mississippian Midale (1,400 - 1,700m depth), Frobisher/Alida (1,200 - 1,400m depth) and Ratcliffe (1,800 - 1,900m) formations

Operational and financial review

Canada business unit ($M except as indicated)	Q4 2018	Q3 2018	Q4 2017	Q4/18 vs. Q3/18	Q4/18 vs. Q4/17	2018	2017	2018 vs. 2017
Production and sales								
Crude oil and condensate (bbls/d)	**29,557**	28,477	9,703	4%	205%	**21,154**	9,051	134%
NGLs (bbls/d)	**6,816**	6,126	5,235	11%	30%	**5,914**	4,144	43%
Natural gas (mmcf/d)	**146.65**	136.77	107.91	7%	36%	**129.37**	97.89	32%
Total (boe/d)	**60,814**	57,397	32,923	6%	85%	**48,630**	29,510	65%
Production mix (% of total)								
Crude oil and condensate	**49%**	50%	29%			**43%**	31%	
NGLs	**11%**	10%	16%			**13%**	14%	
Natural gas	**40%**	40%	55%			**44%**	55%	
Activity								
Capital expenditures	**90,211**	89,837	26,865	—%	236%	**277,857**	148,667	87%
Acquisitions	**12,233**	6,146	788			**1,573,964**	22,011	
Gross wells drilled	**72.00**	65.00	6.00			**173.00**	44.00	
Net wells drilled	**44.08**	58.97	4.00			**135.93**	35.56	
Financial results								
Sales	**186,308**	243,016	94,522	(23)%	97%	**671,172**	330,903	103%
Royalties	**(25,584)**	(33,801)	(9,301)	(24)%	175%	**(84,696)**	(33,258)	155%
Transportation	**(11,129)**	(9,057)	(4,836)	23%	130%	**(29,912)**	(17,368)	72%
Operating	**(62,064)**	(55,577)	(22,356)	12%	178%	**(177,499)**	(80,444)	121%
General and administration	**(2,150)**	(1,316)	(2,540)	63%	(15)%	**(6,057)**	(9,604)	(37)%
Fund flows from operations	**85,381**	143,265	55,489	(40)%	54%	**373,008**	190,229	96%
Netbacks ($/boe)								
Sales	**33.30**	46.02	31.21	(28)%	7%	**37.81**	30.72	23%
Royalties	**(4.57)**	(6.40)	(3.07)	(29)%	49%	**(4.77)**	(3.09)	54%
Transportation	**(1.99)**	(1.72)	(1.60)	16%	24%	**(1.69)**	(1.61)	5%
Operating	**(11.09)**	(10.52)	(7.38)	5%	50%	**(10.00)**	(7.47)	34%
General and administration	**(0.38)**	(0.25)	(0.84)	52%	(55)%	**(0.34)**	(0.89)	(62)%
Fund flows from operations netback	**15.27**	27.13	18.32	(44)%	(17)%	**21.01**	17.66	19%
Realized prices								
Crude oil and condensate ($/bbl)	**54.04**	79.86	69.20	(32)%	(22)%	**70.16**	63.41	11%
NGLs ($/bbl)	**25.53**	27.82	29.18	(8)%	(13)%	**26.20**	25.00	5%
Natural gas ($/mcf)	**1.73**	1.44	1.88	20%	(8)%	**1.54**	2.34	(34)%
Total ($/boe)	**33.30**	46.02	31.21	(28)%	7%	**37.81**	30.72	23%
Reference prices								
WTI (US $/bbl)	**58.81**	69.50	55.40	(15)%	6%	**64.77**	50.95	27%
Edmonton Sweet index ($/bbl)	**42.96**	81.92	68.98	(48)%	(38)%	**69.53**	62.94	10%
Saskatchewan LSB index ($/bbl)	**58.18**	82.79	68.70	(30)%	(15)%	**73.17**	62.10	18%
AECO ($/mcf)	**1.56**	1.19	1.69	31%	(8)%	**1.50**	2.16	(31)%

Production

- Q4 2018 production increased 6% from the prior quarter due to strong operating performance and new well completions from our Saskatchewan and Alberta assets. Quarterly production increased 82% year-over-year primarily due to our acquisition of Spartan Energy Corp. in May 2018.
- Production in Alberta averaged approximately 34,000 boe/d in Q4 2018, an increase of 4% quarter-over-quarter.
- Production in Saskatchewan averaged approximately 26,800 boe/d in Q4 2018, an increase of 9% quarter-over-quarter.

Activity review

- Vermilion drilled 43 (41.1 net) operated wells and participated in the drilling of 29 (2.9 net) non-operated wells in Canada during Q4 2018.

  Alberta
  - In Q4 2018, we drilled or participated in nine (8.9 net) operated and two (0.4 net) non-operated wells, completed four (3.9 net) operated and three (0.8 net) non-operated wells, and brought on production four (4.0 net) operated and four (1.1 net) non-operated wells in Alberta.
  - In 2018, we drilled or participated in 27 (23.4 net) wells in Alberta, which included the drilling of 23 (20.7 net) Mannville wells.

  Saskatchewan
  - In Q4 2018, we drilled or participated in 34 (32.3 net) operated wells and 27 (2.5 net) non-operated wells, completed 40 (37.3 net) operated and 26 (2.8 net) non-operated wells, and brought 51 (48.3 net) operated and 27 (3.2 net) non-operated wells on production.
  - In 2018, we drilled or participated in 146 (112.6 net) wells in Saskatchewan.

- On May 28, 2018, Vermilion acquired 100% of the issued and outstanding common shares of Spartan, a publicly traded southeast Saskatchewan oil and gas producer. Consideration consisted of the issuance of 27.9 million Vermilion common shares valued at approximately $1.2 billion (based on the closing price per Vermilion common share of $44.30 on the Toronto Stock Exchange on May 28, 2018). Vermilion also assumed approximately $172 million of Spartan's outstanding debt at the time the transaction closed.

Sales

- The realized price for our crude oil and condensate production in Canada is linked to WTI subject to market conditions in western Canada (as reflected by the Saskatchewan LSB index price in Saskatchewan and the Edmonton Sweet index price in Alberta). The realized price of our natural gas in Canada is based on the AECO index.
- Q4 2018 sales per boe decreased 28% compared to Q3 2018 consistent with the decrease in crude oil and condensate pricing. Quarter-over-quarter, our crude oil and condensate production mix remained stable at approximately 50% of production.
- For the year ended December 31, 2018, sales per boe increased versus 2017 due to increased Saskatchewan LSB and Edmonton Sweet index pricing coupled with an increased weighting towards higher-priced crude oil and condensate production.

Royalties

- Royalties as a percentage of sales for the three months and year ended December 31, 2018 of 13.7% and 12.6%, respectively, increased from the comparable periods in 2017 due to the impact of the Spartan assets, which have higher associated royalty rates.

Transportation

- Transportation expense for the three months and year ended December 31, 2018 increased on a per unit basis versus all comparable periods due to an increase in production that incurs higher transportation expense.

Operating

- Operating expense increased in Q4 2018 versus Q3 2018 on both a dollar and per unit basis. On a dollar basis, this increase was due to higher production volumes and the per unit increase was caused by a favourable adjustment recorded in the prior quarter.
- For the three months and year ended December 31, 2018, operating expense increased on both a dollar and per unit basis versus the comparable periods in 2017. On a dollar basis, the increase in operating expense was driven by higher production volumes during Q4 2018. On a per unit basis, the increase in operating expense was primarily attributable to the impact of production from the Spartan assets, which have higher associated per unit operating expense.

France Business Unit

Overview

- Entered France in 1997.
- Largest oil producer in France, constituting approximately three-quarters of domestic oil production.
- Low base decline producing assets comprised of large conventional oil fields with high working interests located in the Aquitaine and Paris Basins.
- Identified inventory of workover, infill drilling, and secondary recovery opportunities.

Operational and financial review

France business unit ($M except as indicated)	Q4 2018	Q3 2018	Q4 2017	Q4/18 vs. Q3/18	Q4/18 vs. Q4/17	2018	2017	2018 vs. 2017
Production								
Crude oil (bbls/d)	**11,317**	11,407	11,215	(1)%	1%	**11,362**	11,084	3%
Natural gas (mmcf/d)	**0.82**	—	—	100%	100%	**0.21**	—	100%
Total (boe/d)	**11,454**	11,407	11,215	—%	2%	**11,396**	11,085	3%
Sales								
Crude oil (bbls/d)	**10,975**	11,482	11,397	(4)%	(4)%	**11,012**	10,950	1%
Natural gas (mmcf/d)	**0.82**	—	—	100%	100%	**0.21**	—	100%
Total (boe/d)	**11,111**	11,482	11,397	(3)%	(3)%	**11,047**	10,950	1%
Inventory (mbbls)								
Opening crude oil inventory	**293**	300	214			**197**	148	
Crude oil production	**1,041**	1,049	1,032			**4,147**	4,046	
Crude oil sales	**(1,009)**	(1,056)	(1,049)			**(4,019)**	(3,997)	
Closing crude oil inventory	**325**	293	197			**325**	197	
Activity								
Capital expenditures	**17,008**	15,779	20,027	8%	(15)%	**79,758**	73,381	9%
Gross wells drilled	**—**	—	2.00			**5.00**	7.00	
Net wells drilled	**—**	—	2.00			**5.00**	7.00	
Financial results								
Sales	**85,889**	100,840	78,778	(15)%	9%	**360,602**	268,103	35%
Royalties	**(11,976)**	(12,765)	(10,599)	(6)%	13%	**(46,781)**	(28,565)	64%
Transportation	**(3,242)**	(2,013)	(4,475)	61%	(28)%	**(10,426)**	(14,627)	(29)%
Operating	**(14,015)**	(13,733)	(14,332)	2%	(2)%	**(54,690)**	(51,002)	7%
General and administration	**(3,792)**	(3,365)	(4,259)	13%	(11)%	**(14,170)**	(13,585)	4%
Current income taxes	**(884)**	(6,913)	(2,348)	(87)%	(62)%	**(15,084)**	(10,556)	43%
Fund flows from operations	**51,980**	62,051	42,765	(16)%	22%	**219,451**	149,768	47%
Netbacks ($/boe)								
Sales	**84.02**	95.46	75.13	(12)%	12%	**89.44**	67.08	33%
Royalties	**(11.72)**	(12.08)	(10.11)	(3)%	16%	**(11.60)**	(7.15)	62%
Transportation	**(3.17)**	(1.91)	(4.27)	66%	(26)%	**(2.59)**	(3.66)	(29)%
Operating	**(13.71)**	(13.00)	(13.67)	5%	—%	**(13.56)**	(12.76)	6%
General and administration	**(3.71)**	(3.19)	(4.06)	16%	(9)%	**(3.51)**	(3.40)	3%
Current income taxes	**(0.86)**	(6.54)	(2.24)	(87)%	(62)%	**(3.74)**	(2.64)	42%
Fund flows from operations netback	**50.85**	58.74	40.78	(13)%	25%	**54.44**	37.47	45%
Reference prices								
Dated Brent (US $/bbl)	**67.76**	75.27	61.39	(10)%	10%	**71.04**	54.27	31%
Dated Brent ($/bbl)	**89.54**	98.37	78.05	(9)%	15%	**92.07**	70.44	31%

Production

- Q4 2018 production increased slightly from the prior quarter due continued strong performance from the 2018 Champotran wells and continued workover success in the Aquitaine Basin. Production increased 2% year-over-year primarily due to production additions from our 2018 drilling program.

Activity review

- Our 2018 capital program included the drilling and completion of two (2.0 net) Neocomian wells and three (3.0 net) Champotran wells in the first quarter of 2018. In addition to the drilling and completion activity, we continued our workover and optimization programs in the Aquitaine and Paris Basins throughout 2018.

Sales

- Crude oil in France is priced with reference to Dated Brent.
- Q4 2018 sales per boe decreased versus Q3 2018, consistent with the weakening in the Dated Brent reference price.
- For the three months and year ended December 31, 2018 versus the comparable periods in the prior year, the increase in sales per boe was consistent with increases in the Dated Brent benchmark price.

Royalties

- Royalties in France relate to two components: RCDM (levied on units of production and not subject to changes in commodity prices) and R31 (based on a percentage of sales).
- Royalties as a percentage of sales was 13.9% in Q4 2018 compared to 12.7% in Q3 2018. This increase was due the impact of fixed per-unit RCDM royalties relative to lower revenues resulting from weaker commodity prices.
- For the three months and year ended December 31, 2018, royalties as a percentage of sales of 13.9% and 13.0% increased from 13.5% and 10.7%, respectively, in the comparable periods in the prior year. These increases were due to the impact of a royalty rate increase enacted in 2017.

Transportation

- Transportation expense increased in Q4 2018 compared to Q3 2018 due to higher pipeline and terminal maintenance work performed in Q4 2018.
- Transportation expense for the three months and year ended December 31, 2018 decreased versus the comparable periods in the prior year, primarily due to the impact of IFRS 16 adoption in 2018. Please refer to "Recently Adopted Accounting Pronouncements" for additional information.

Operating

- Operating expense in Q4 2018 was relatively consistent with Q3 2018 and Q4 2017 on a dollar basis. On a per unit basis, operating expense increased in Q4 2018 versus Q3 2018 due to the impact of fixed costs on lower sales volumes, which was a result of shipment timing.
- For the year ended December 31, 2018, operating expense increased versus 2017 on both a dollar and per unit basis. These increases were primarily due to the impact of a stronger Euro versus the Canadian dollar, increased cost and usage of electricity, and higher maintenance activity in 2018.

General and administration

- Fluctuations in general and administration expense for all comparable periods were due to the timing of expenditures and allocations from our corporate segment.

Current income taxes

- In France, current income taxes are applied to taxable income, after eligible deductions, at a statutory rate of 34.4%.
- Current income taxes for the year ended December 31, 2018 versus the comparative period were higher mainly due to higher Dated Brent prices resulting in increased sales.
- Current income taxes for Q4 2018 versus Q3 2018 and Q4 2017 were lower due to increased tax deductions for depletion.
- On December 21, 2017, the French Parliament approved the Finance Bill for 2018. The Finance Bill for 2018 provides for a progressive decrease of the French corporate income tax rate from 34.4% to 25.8% by 2022, with the first reduction planned for 2019 to 32.0%.

Netherlands Business Unit

Overview

- Entered the Netherlands in 2004.
- Second largest onshore operator.
- Interests include 26 onshore licenses (all operated) and 17 offshore licenses (all non-operated).
- Licenses include more than 930,000 net acres of land, 90% of which is undeveloped.

Operational and financial review

Netherlands business unit ($M except as indicated)	Q4 2018	Q3 2018	Q4 2017	Q4/18 vs. Q3/18	Q4/18 vs. Q4/17	2018	2017	2018 vs. 2017
Production and sales								
Condensate (bbls/d)	**112**	84	105	33%	7%	**90**	90	—%
Natural gas (mmcf/d)	**51.82**	44.37	55.66	17%	(7)%	**46.13**	40.54	14%
Total (boe/d)	**8,749**	7,479	9,381	17%	(7)%	**7,779**	6,847	14%
Activity								
Capital expenditures	**2,454**	5,056	12,300	(51)%	(80)%	**17,483**	31,575	(45)%
Acquisitions	**(7,860)**	2,874	(38)			**(2,087)**	(24)	
Gross wells drilled	**—**	—	—			**—**	2.00	
Net wells drilled	**—**	—	—			**—**	1.02	
Financial results								
Sales	**52,937**	41,793	40,914	27%	29%	**165,916**	108,060	54%
Royalties	**(537)**	(1,049)	(647)	(49)%	(17)%	**(3,181)**	(1,722)	85%
Operating	**(6,765)**	(5,812)	(6,981)	16%	(3)%	**(26,681)**	(21,212)	26%
General and administration	**(709)**	(320)	(546)	122%	30%	**(1,947)**	(2,212)	(12)%
Current income taxes	**(7,492)**	1,729	6,975	N/A	N/A	**(16,561)**	3,331	N/A
Fund flows from operations	**37,434**	36,341	39,715	3%	(6)%	**117,546**	86,245	36%
Netbacks ($/boe)								
Sales	**65.77**	60.74	47.41	8%	39%	**58.44**	43.24	35%
Royalties	**(0.67)**	(1.52)	(0.75)	(56)%	(11)%	**(1.12)**	(0.69)	62%
Operating	**(8.40)**	(8.45)	(8.09)	(1)%	4%	**(9.40)**	(8.49)	11%
General and administration	**(0.88)**	(0.47)	(0.63)	87%	40%	**(0.69)**	(0.89)	(22)%
Current income taxes	**(9.31)**	2.51	8.08	N/A	N/A	**(5.83)**	1.33	N/A
Fund flows from operations netback	**46.51**	52.81	46.02	(12)%	1%	**41.40**	34.50	20%
Realized prices								
Condensate ($/bbl)	**69.95**	82.32	66.38	(15)%	5%	**74.85**	56.90	32%
Natural gas ($/mcf)	**10.95**	10.08	7.87	9%	39%	**9.71**	7.18	35%
Total ($/boe)	**65.77**	60.74	47.41	8%	39%	**58.44**	43.24	35%
Reference prices								
TTF ($/mcf)	**10.91**	10.92	8.36	—%	31%	**10.23**	7.43	38%
TTF (€/mcf)	**7.23**	7.18	5.58	1%	30%	**6.69**	5.07	32%

Production

- Q4 2018 production increased 17% from the prior quarter due to the contribution of a full quarter of production from the Eesveen-02 well (60% working interest), which we brought on production at a restricted rate of 10 mmcf/d net late in the third quarter of 2018. Production decreased 7% year-over-year primarily due to natural declines and permitting delays of certain drilling and workover activities, which impacted 2018 full-year volumes.

Activity review

- Our 2018 capital activity was primarily focused on planned workovers, facilities maintenance, and advancing our drilling permits ahead of our 2019 drilling campaign.
- In September 2018 we brought the Eesveen-02 well on production at a restricted rate of 10 mmcf/d net.
- In Q4 2018 we consolidated working interests on some of our existing assets and added minor working interest ownerships in several non-operated offshore licenses. The acquisition contributed approximately 200 boe/d to our Q4 2018 production results. Consideration for the acquisition required no cash payment but included the assumption of the full ARO associated with the incremental working interest. The ARO is estimated at a PV10 of €20 million. At closing we received a cash payment and positive working capital totaling €5.8 million due to the transaction having an effective date of January 1, 2018.

Sales

- The price of our natural gas in the Netherlands is based on the TTF index.
- Q4 2018 sales increased on a dollar basis versus Q3 2018 due to higher sales volumes coupled with increased TTF commodity pricing. Sales for the year ended December 31, 2018 increased versus the same period in the prior year due to the stronger TTF reference price in 2018, as well as an increase in sold volumes in 2018.
- For the three months and year ended December 31, 2018, sales per boe increased versus all comparable periods, consistent with increases in the TTF reference price.

Royalties

- In the Netherlands, certain wells are subject to overriding royalties while some wells are subject to royalties that take effect only when specified production levels are exceeded. As such, royalty expense may fluctuate from period to period depending on the amount of production from those wells. Royalties in the three months and year ended December 31, 2018 represented 1.0% and 1.9% of sales, respectively.

Transportation

- Our production in the Netherlands is not subject to transportation expense as gas is sold at the plant gate.

Operating

- Q4 2018 operating expense increased on a dollar basis versus Q3 2018 due to a prior period adjustment booked in Q4 2018 relating to power usage, as well as increased permitting costs. On a per boe basis, operating expense was relatively consistent with the prior quarter as higher costs were offset by an increase in sales volumes. Operating expense on a per unit basis increased Q4 2018 versus Q4 2017 due to the impact of fixed costs over lower sales volumes.
- For the year ended December 31, 2018, operating expense increased on a dollar basis versus the comparable period in 2017 primarily due to increased maintenance activity coupled with an unfavourable foreign exchange impact. On a per unit basis, operating expense increased due to the strengthening of the Euro versus the Canadian Dollar.

General and administration

- Fluctuations in general and administration expense for all comparable periods were due to the timing of expenditures and allocations from our corporate segment.

Current income taxes

- In the Netherlands, current income taxes are applied to taxable income, after eligible deductions and a 10% uplift deduction applied to operating expenses, eligible general and administration and tax deductions for depletion and asset retirement obligations, at a tax rate of 50%.
- Current income taxes in Q4 2018 and for the year ended December 31, 2018 versus the comparative periods were higher mainly due to higher TTF prices and volumes resulting in increased sales and an increased tax deduction taken in Q4 2017 for future asset retirement obligations resulting from a reduction in the applicable discount rate assumption.
- On December 18, 2018, the Dutch government approved the 2019 Tax Plan. The Bill provides for reduced corporate tax rates from 25.0% to 20.5% by 2021, with the first reduction planned for 2020 to 22.55%. Due to the tax regime applicable to natural gas producers in the Netherlands, the reduction to the corporate tax rate is not expected to have a material impact to Vermilion taxes in the Netherlands.

Germany Business Unit

Overview

- Entered Germany in 2014 through the acquisition of a non-operated natural gas producing property.
- Executed a significant exploration license farm-in agreement in 2015 and acquired operated producing properties in 2016.
- Producing assets consist of seven gas and eight oil producing fields with extensive infrastructure in place.
- Significant land position of approximately 1.2 million net acres (97% undeveloped).

Operational and financial review

Germany business unit ($M except as indicated)	Q4 2018	Q3 2018	Q4 2017	Q4/18 vs. Q3/18	Q4/18 vs. Q4/17	2018	2017	2018 vs. 2017
Production								
Crude oil (bbls/d)	**913**	1,019	1,148	(10)%	(20)%	**1,004**	1,060	(5)%
Natural gas (mmcf/d)	**16.94**	14.88	18.19	14%	(7)%	**15.66**	19.39	(19)%
Total (boe/d)	**3,736**	3,498	4,180	7%	(11)%	**3,614**	4,291	(16)%
Sales								
Crude oil (bbls/d)	**970**	929	1,067	4%	(9)%	**1,065**	993	7%
Natural gas (mmcf/d)	**16.94**	14.88	20.12	14%	(16)%	**15.66**	19.79	(21)%
Total (boe/d)	**3,794**	3,408	4,420	11%	(14)%	**3,675**	4,292	(14)%
Production mix (% of total)								
Crude oil	**24%**	29%	27%			**28%**	25%	
Natural gas	**76%**	71%	73%			**72%**	75%	
Activity								
Capital expenditures	**4,580**	6,497	5,279	(30)%	(13)%	**15,806**	9,531	66%
Acquisitions	**706**	959	—			**1,665**	—	
Financial results								
Sales	**21,897**	21,052	18,898	4%	16%	**82,449**	68,696	20%
Royalties	**(1,190)**	(2,448)	(1,798)	(51)%	(34)%	**(6,626)**	(6,655)	—%
Transportation	**(1,452)**	(1,191)	(1,164)	22%	25%	**(6,420)**	(6,207)	3%
Operating	**(6,615)**	(4,863)	(6,025)	36%	10%	**(23,048)**	(20,176)	14%
General and administration	**(2,308)**	(2,073)	(2,080)	11%	11%	**(7,401)**	(7,767)	(5)%
Fund flows from operations	**10,332**	10,477	7,831	(1)%	32%	**38,954**	27,891	40%
Netbacks ($/boe)								
Sales	**62.74**	67.15	50.22	(7)%	25%	**61.47**	44.37	39%
Royalties	**(3.41)**	(7.81)	(4.78)	(56)%	(29)%	**(4.94)**	(4.30)	15%
Transportation	**(4.16)**	(3.80)	(3.09)	9%	35%	**(4.79)**	(4.01)	19%
Operating	**(18.95)**	(15.51)	(16.01)	22%	18%	**(17.18)**	(13.03)	32%
General and administration	**(6.61)**	(6.61)	(5.53)	—%	20%	**(5.52)**	(5.02)	10%
Fund flows from operations netback	**29.61**	33.42	20.81	(11)%	42%	**29.04**	18.01	61%
Realized prices								
Crude oil ($/bbl)	**75.53**	92.45	72.58	(18)%	4%	**84.14**	63.91	32%
Natural gas ($/mcf)	**9.72**	9.61	7.07	1%	37%	**8.70**	6.38	36%
Total ($/boe)	**62.74**	67.15	50.22	(7)%	25%	**61.47**	44.37	39%
Reference prices								
Dated Brent (US $/bbl)	**67.76**	75.27	61.39	(10)%	10%	**71.04**	54.27	31%
Dated Brent ($/bbl)	**89.54**	98.37	78.05	(9)%	15%	**92.07**	70.44	31%
TTF ($/mcf)	**10.91**	10.92	8.36	—%	31%	**10.23**	7.43	38%
TTF (€/mcf)	**7.23**	7.18	5.58	1%	30%	**6.69**	5.07	32%

Production

- Q4 2018 production increased 7% from the prior quarter due to the restoration of a non-operated gas processing facility in the prior quarter, partially offset by other minor unplanned downtime events on our non-operated oil assets. Production decreased 11% year-over-year due to downtime at a non-operated gas processing plant that began in the middle of Q2 2018 and continued through the middle of Q3 2018.

Activity review

- Our 2018 capital program focused on permitting and other pre-drill activities associated with our first operated well in Germany, Burgmoor Z5 (46% working interest) in the Dümmersee-Uchte area, which we expect to drill in 2019, in addition to performing workovers opportunities on our operated asset base.

Sales

- The price of our natural gas in Germany is based on the NCG and GPL indexes, which are both highly correlated to the TTF benchmark. Crude oil in Germany is priced with reference to Dated Brent.
- Sales per boe for Q4 2018 decreased versus Q3 2018, and increased versus the comparable periods in 2017, consistent with fluctuations in crude oil and natural gas benchmark prices.
- Sales per boe for 2018 increased versus 2017 due to the increase in crude oil and natural gas benchmark prices.

Royalties

- Our production in Germany is subject to state and private royalties on sales after certain eligible deductions.
- Royalties as a percentage of sales were lower in Q4 2018 versus Q3 2018 and Q4 2017 due to an annual rate adjustment recorded in Q4 2018. Royalties as a percentage of sales for the year ended December 31, 2018 were lower than the comparable period in the prior year due to increased production of crude oil with lower associated royalty rates.

Transportation

- Transportation expense in Germany relates to costs incurred to deliver natural gas from the processing facility to the customer and deliver crude oil to the refinery.
- Transportation expense in Q4 2018 was higher than Q3 2018 due to the impact of a favourable prior period adjustment recorded in Q3 2018. Transportation expense increased versus Q4 2017 due to higher volumes of crude oil transported in Q4 2018.
- Transportation expense for the year ended December 31, 2018 increased slightly versus the comparable period in the prior year due to higher tariffs on crude oil transport in 2018.

Operating

- Operating expense on a per unit basis in Q4 2018 was higher versus Q3 2018 due to higher activity levels at non-operated properties and increased gas processing fees.
- Operating expense on a per unit basis increased for the three months and year ended December 31, 2018, versus the comparable periods in the prior year. The increase was primarily due to increased gas processing tariffs, the impact of fixed costs on lower volumes and the impact of a stronger Euro versus the Canadian dollar.

General and administration

- Fluctuations in general and administration expense for all comparable periods were due to the timing of expenditures and allocations from our corporate segment.

Current income taxes

- As a result of our tax pools in Germany, we do not expect to incur current income taxes for 2019 in the German Business Unit. This is subject to change in response to production variations, commodity price fluctuations, the timing of capital expenditures, and other eligible in-country adjustments.

Ireland Business Unit

Overview

- Entered Ireland in 2009 with an investment in the offshore Corrib gas field.
- The Corrib gas field is located offshore northwest Ireland and comprises six offshore wells, offshore and onshore sales and transportation pipeline segments, as well as a natural gas processing facility.
- In Q4 2018, Vermilion assumed operatorship of the Corrib Natural Gas Project (the "Corrib Project") and increased its ownership stake by 1.5% to 20% following the completion of a strategic partnership with Canada Pension Plan Investment Board (“CPPIB”).

Operational and financial review

Ireland business unit ($M except as indicated)	Q4 2018	Q3 2018	Q4 2017	Q4/18 vs. Q3/18	Q4/18 vs. Q4/17	2018	2017	2018 vs. 2017
Production and sales								
Natural gas (mmcf/d)	**52.03**	51.38	56.23	1%	(7)%	**55.17**	58.43	(6)%
Total (boe/d)	**8,672**	8,563	9,372	1%	(7)%	**9,195**	9,737	(6)%
Activity								
Capital expenditures	**140**	(50)	327	N/A	(57)%	**224**	551	(59)%
Acquisitions	**(5,572)**	—	—			**(5,572)**	—	
Financial results								
Sales	**53,385**	50,228	43,793	6%	22%	**205,150**	153,330	34%
Transportation	**(1,115)**	(1,460)	(1,496)	(24)%	(25)%	**(5,129)**	(5,205)	(1)%
Operating	**(4,497)**	(3,354)	(2,977)	34%	51%	**(15,366)**	(17,596)	(13)%
General and administration	**(2,037)**	(3,597)	(517)	(43)%	294%	**(8,386)**	(2,320)	261%
Fund flows from operations	**45,736**	41,817	38,803	9%	18%	**176,269**	128,209	37%
Netbacks ($/boe)								
Sales	**66.91**	63.76	50.79	5%	32%	**61.12**	43.14	42%
Transportation	**(1.40)**	(1.85)	(1.74)	(24)%	(20)%	**(1.53)**	(1.46)	5%
Operating	**(5.64)**	(4.26)	(3.45)	32%	63%	**(4.58)**	(4.95)	(7)%
General and administration	**(2.55)**	(4.57)	(0.60)	(44)%	325%	**(2.50)**	(0.65)	285%
Fund flows from operations netback	**57.32**	53.08	45.00	8%	27%	**52.51**	36.08	46%
Reference prices								
NBP ($/mcf)	**11.03**	10.95	8.70	1%	27%	**10.35**	7.49	38%
NBP (€/mcf)	**7.31**	7.20	5.81	2%	26%	**6.76**	5.12	32%

Production

- Q4 2018 production increased 1% from the prior quarter primarily due to the production contribution from the closing of our acquisition of an additional 1.5% working interest in the Corrib Project. Production also benefited from the absence of maintenance downtime that had occurred in Q3 2018, which was partially offset by natural decline.

Activity review

- In December 2018, Vermilion acquired all of the issued and outstanding common shares of Shell E&P Ireland Limited, along with an incremental 1.5% working interest in the Corrib Project in Ireland from Nephin Energy Holdings Limited, a wholly owned subsidiary of CPPIB. The acquisition increased Vermilion's total ownership in Corrib to 20%. As part of this transaction, Vermilion assumed operatorship of the Corrib Project, providing us with day-to-day control over Corrib operations.

Sales

- The price of our natural gas in Ireland is based on the NBP index.
- Sales per boe for the three months and year ended December 31, 2018 increased versus all comparable periods consistent with increases in the NBP reference price.

Royalties

- Our production in Ireland is not subject to royalties.

Transportation

- Transportation expense in Ireland relates to payments under a ship-or-pay agreement related to the Corrib project.
- Transportation expense for the three months ended December 31, 2018 decreased versus Q3 2018 and Q4 2017 due to a decrease in tariffs in Q4 2018. For the year ended December 31, 2018, transportation expense was consistent with the comparable period in 2017.

Operating

- Q4 2018 operating expense was higher versus Q3 2018 and Q4 2017 due to an increase in offshore operations and terminal maintenance activity completed during Q4 2018.
- For the year ended December 31, 2018, operating expense was lower versus the comparable period in 2017 due to higher offshore maintenance activities which occurred in 2017.

General and administration

- The increase in general and administration expense versus all comparable periods is primarily due to transition costs associated with the aforementioned strategic partnership in Corrib.

Current income taxes

- Given the significant level of investment in Corrib and the resulting tax pools, we do not expect to incur current income taxes in the Ireland Business Unit for the foreseeable future.

Australia Business Unit

Overview

- Entered Australia in 2005.
- Hold a 100% operated working interest in the Wandoo field, located approximately 80 km offshore on the northwest shelf of Australia.
- Production is operated from two off-shore platforms and originates from 20 producing wells including five dual lateral wells for a total of 25 producing laterals.
- Wells that utilize horizontal legs (ranging in length from 500 to 3,000 plus metres) are located 600m below the seabed in approximately 55m of water depth.

Operational and financial review

Australia business unit ($M except as indicated)	Q4 2018	Q3 2018	Q4 2017	Q4/18 vs. Q3/18	Q4/18 vs. Q4/17	2018	2017	2018 vs. 2017
Production								
Crude oil (bbls/d)	**4,174**	4,704	4,993	(11)%	(16)%	**4,494**	5,770	(22)%
Sales								
Crude oil (bbls/d)	**4,401**	3,935	4,707	12%	(7)%	**4,342**	5,717	(24)%
Inventory (mbbls)								
Opening crude oil inventory	**210**	139	108			**134**	115	
Crude oil production	**384**	433	459			**1,640**	2,106	
Crude oil sales	**(405)**	(362)	(433)			**(1,585)**	(2,087)	
Closing crude oil inventory	**189**	210	134			**189**	134	
Activity								
Capital expenditures	**43,760**	16,061	7,192	172%	508%	**75,638**	29,942	153%
Financial results								
Sales	**39,351**	35,848	36,086	10%	9%	**150,733**	154,391	(2)%
Operating	**(15,757)**	(11,585)	(12,172)	36%	29%	**(53,199)**	(50,139)	6%
General and administration	**(1,391)**	(1,020)	(3,193)	36%	(56)%	**(4,918)**	(8,194)	(40)%
Current income taxes	**2,206**	(3,101)	(5,327)	N/A	N/A	**(11,419)**	(24,355)	(53)%
Fund flows from operations	**24,409**	20,142	15,394	21%	59%	**81,197**	71,703	13%
Netbacks ($/boe)								
Sales	**97.19**	99.01	83.32	(2)%	17%	**95.11**	73.99	29%
Operating	**(38.92)**	(32.00)	(28.11)	22%	38%	**(33.57)**	(24.03)	40%
General and administration	**(3.44)**	(2.82)	(7.37)	22%	(53)%	**(3.10)**	(3.93)	(21)%
PRRT	**5.98**	0.70	(8.25)	754%	N/A	**(3.04)**	(9.50)	(68)%
Corporate income taxes	**(0.53)**	(9.27)	(4.05)	(94)%	(87)%	**(4.16)**	(2.17)	92%
Fund flows from operations netback	**60.28**	55.62	35.54	8%	70%	**51.24**	34.36	49%
Reference prices								
Dated Brent (US $/bbl)	**67.76**	75.27	61.39	(10)%	10%	**71.04**	54.27	31%
Dated Brent ($/bbl)	**89.54**	98.37	78.05	(9)%	15%	**92.07**	70.44	31%

Production

- Q4 2018 production decreased 11% quarter-over-quarter and 16% year-over-year due to a planned shutdown of the Wandoo field for maintenance and other well downtime, including that which was associated with drilling two new wells.
- Production volumes are managed within corporate targets while meeting customer demands and the requirements of long-term supply agreements.
- We continue to plan for long-term annual production levels of approximately 6,000 bbls/d.

Activity review

- In Q4 2018, we initiated our two (2.0 net) well drilling program, which was successfully completed in early 2019. The total cost of the program was $75 million, which was approximately $10 million over budget due to some minor drilling complications and weather-related delays.
- We also continued to focus on adding value through asset optimization and proactive maintenance.

Sales

- Crude oil in Australia is priced with reference to Dated Brent.
- Q4 2018 sales per boe were consistent with Q3 2018, but higher sales volumes resulted in an increase in sales quarter-over-quarter.
- Sales per boe for the three months and year ended December 31, 2018 increased versus the comparable periods in the prior year, consistent with increases in the Dated Brent reference price.

Royalties and transportation

- Our production in Australia is not subject to royalties or transportation expense as crude oil is sold directly at the Wandoo B platform.

Operating

- Q4 2018 operating expense increased versus Q3 2018 due to higher diesel usage and increased maintenance activity in Q4 2018.
- For the three months and year ended December 31, 2018, per unit operating expense increased versus the comparable periods in the prior year due to increased diesel usage and helicopter costs, coupled with the impact of fixed costs on lower volumes.

General and administration

- Fluctuations in general and administration expense for all comparable periods are primarily due to the timing of expenditures and allocations from our corporate segment. In addition, the decrease in general and administration expense for the three months and year ended December 31, 2018 versus the comparable periods in 2017 is primarily due to the impact of IFRS 16 adoption in 2018. As a result of this new accounting pronouncement, certain arrangements associated with office space in Australia have been accounted for as leases. Please refer to "Recently Adopted Accounting Pronouncements" for additional information.

Current income taxes

- In Australia, current income taxes include both PRRT and corporate income taxes. PRRT is a profit based tax applied at a rate of 40% on sales less eligible expenditures, including operating expenses and capital expenditures. Corporate income taxes are applied at a rate of 30% on taxable income after eligible deductions, which include PRRT paid.
- Current income taxes in Q4 2018 and for the year ended December 31, 2018 versus all comparative periods were lower mainly due to increased PRRT tax deductions for the Q4 2018 capital expenditures related to the drilling campaign.

United States Business Unit

Overview

- Entered the United States in September 2014.
- Interests include approximately 148,700 net acres of land (71% undeveloped) in the Powder River Basin of northeastern Wyoming.
- Tight oil development targeting the Turner Sands at depths of approximately 1,500m (East Finn) and 2,600m (Hilight).

Operational and financial review

United States business unit ($M except as indicated)	Q4 2018	Q3 2018	Q4 2017	Q4/18 vs. Q3/18	Q4/18 vs. Q4/17	2018	2017	2018 vs. 2017
Production and sales								
Crude oil (bbls/d)	**1,605**	1,461	667	10%	141%	**1,078**	666	62%
NGLs (bbls/d)	**998**	714	43	40%	2,221%	**452**	50	804%
Natural gas (mmcf/d)	**5.65**	4.82	0.29	17%	1,848%	**2.78**	0.39	613%
Total (boe/d)	**3,545**	2,979	758	19%	368%	**1,992**	781	155%
Production mix (% of total)								
Crude oil	**45%**	49%	88%			**54%**	85%	
NGLs	**28%**	24%	6%			**23%**	6%	
Natural gas	**27%**	27%	6%			**23%**	9%	
Activity								
Capital expenditures	**2,881**	11,386	1,018	(75)%	183%	**40,837**	19,074	114%
Acquisitions	**3,674**	187,987	91			**191,740**	3,403	
Gross wells drilled	**1.00**	—	—			**6.00**	3.00	
Net wells drilled	**1.00**	—	—			**6.00**	3.00	
Financial results								
Sales	**14,625**	14,551	4,350	1%	236%	**38,465**	15,355	151%
Royalties	**(4,053)**	(3,444)	(1,196)	18%	239%	**(10,070)**	(4,276)	136%
Transportation	**—**	—	(15)	—%	(100)%	**—**	(41)	(100)%
Operating	**(2,848)**	(2,633)	(397)	8%	617%	**(6,421)**	(1,698)	278%
General and administration	**(1,396)**	(2,397)	(1,274)	(42)%	10%	**(6,306)**	(4,341)	45%
Fund flows from operations	**6,328**	6,077	1,468	4%	331%	**15,668**	4,999	213%
Netbacks ($/boe)								
Sales	**44.85**	53.10	62.40	(16)%	(28)%	**52.90**	53.84	(2)%
Royalties	**(12.43)**	(12.57)	(17.16)	(1)%	(28)%	**(13.85)**	(14.99)	(8)%
Transportation	**—**	—	(0.21)	—%	(100)%	**—**	(0.14)	(100)%
Operating	**(8.73)**	(9.61)	(5.70)	(9)%	53%	**(8.83)**	(5.95)	48%
General and administration	**(4.28)**	(8.75)	(18.28)	(51)%	(77)%	**(8.67)**	(15.22)	(43)%
Fund flows from operations netback	**19.41**	22.17	21.05	(12)%	(8)%	**21.55**	17.54	23%
Realized prices								
Crude oil ($/bbl)	**70.78**	87.34	67.15	(19)%	5%	**79.18**	60.07	32%
NGLs ($/bbl)	**26.81**	29.22	41.25	(8)%	(35)%	**28.02**	25.11	12%
Natural gas ($/mcf)	**3.29**	2.01	2.48	64%	33%	**2.67**	2.05	30%
Total ($/boe)	**44.85**	53.10	62.40	(16)%	(28)%	**52.90**	53.84	(2)%
Reference prices								
WTI (US $/bbl)	**58.81**	69.50	55.40	(15)%	6%	**64.77**	50.95	27%
WTI ($/bbl)	**77.71**	90.83	70.43	(14)%	10%	**83.94**	66.13	27%
Henry Hub (US $/mcf)	**3.65**	2.90	2.93	26%	25%	**3.09**	3.11	(1)%
Henry Hub ($/mcf)	**4.82**	3.80	3.73	27%	29%	**4.01**	4.04	(1)%

Production

- Q4 2018 production increased 19% from the prior quarter and 368% year-over-year primarily due to the production associated with an acquisition we completed in August 2018.

Activity

- In August 2018, we acquired all of the assets of a private oil company in the Powder River Basin for total cash consideration of approximately $189 million. The assets are located in Campbell County, Wyoming, approximately 40 miles (65 kilometres) northwest of Vermilion's existing operations. The assets included approximately 55,700 net acres of land (approximately 96% working interest) and approximately 2,500 boe/d (63% oil and NGLs) of production with an estimated annual base decline rate of 13%.
- Our 2018 drilling program consisted of the drilling and completion of five (5.0 net) wells on our East Finn asset, along with the drilling and completion of one (1.0 net) well on our recently acquired Hilight asset, both located in the Powder River Basin.

Sales

- The price of crude oil in the United States is directly linked to WTI, subject to local market differentials within the United States.
- Q4 2018 sales per boe decreased versus Q3 2018 consistent with the decrease in crude oil pricing.
- Q4 2018 sales per boe decreased versus Q4 2017 due to an increase in natural gas production from assets acquired in 2018. For the year ended December 31, 2018, sales per boe remained relatively stable versus the comparable period in 2017. This was due to the strengthening of WTI reference pricing offset by the increase in gas production from newly acquired assets.

Royalties

- Our production in the United States is subject to federal and private royalties, severance tax, and ad valorem tax.
- Royalties as a percentage of sales were higher in Q4 2018 versus Q3 2018 due to the impact of a favourable prior period adjustment recorded in Q3 2018, which also reduced royalties as a percentage of sales for 2018 versus 2017.

Operating

- Fluctuations in operating expense versus all comparable periods were due to the timing of maintenance activity and incremental costs from the assets acquired in Q3 2018.

General and administration

- Fluctuations in general and administration expense for all comparable periods were due to the incremental staffing of the United States corporate office, timing of expenditures and allocations from our corporate segment.

Current income taxes

- As a result of our tax pools in the United States, we do not expect to incur current income taxes in the US Business Unit for the foreseeable future.

Corporate

Overview

- Our Corporate segment includes costs related to our global hedging program, financing expenses, and general and administration expenses that are primarily incurred in Canada and are not directly related to the operations of our business units. Gains or losses relating to Vermilion's global hedging program are allocated to Vermilion's business units for statutory reporting and income tax purposes.
- Results of our activities in Central and Eastern Europe are also included in the Corporate segment, including production, revenues, and expenditures relating to our first exploratory well in the South Battonya concession in Hungary.

Operational and financial review

Corporate ($M)	Q4 2018	Q3 2018	Q4 2017	2018	2017
Production and sales					
Natural gas (mmcf/d)	**2.86**	1.17	—	**1.02**	—
Total (boe/d)	**477**	195	—	**169**	—
Activity					
Capital expenditures	**2,546**	1,619	1,295	**10,611**	7,728
Acquisitions	**(492)**	207	2,207	**(285)**	2,247
Gross wells drilled	**—**	—	—	**1.00**	—
Net wells drilled	**—**	—	—	**1.00**	—
Financial results					
Sales	**2,547**	1,083	—	**3,630**	—
Royalties	**(534)**	(279)	—	**(813)**	—
Operating	**—**	(201)	—	**(110)**	—
General and administration recovery (expense)	**969**	854	(1,532)	**(2,744)**	(6,350)
Current income taxes	**646**	(862)	(542)	**(513)**	(527)
Interest expense	**(20,827)**	(19,772)	(13,710)	**(72,759)**	(57,313)
Realized (loss) gain on derivatives	**(28,319)**	(37,365)	(7,493)	**(111,258)**	4,721
Realized foreign exchange gain (loss)	**5,894**	(3,100)	2,899	**243**	2,316
Realized other income	**275**	177	166	**883**	674
Fund flows from operations	**(39,258)**	(59,465)	(20,212)	**(183,441)**	(56,479)

Production review

- Production in our Central and Eastern Europe business unit averaged 477 boe/d in Q4 2018 representing the first full quarter of gas production for the business unit from our South Battonya concession in Hungary.

Activity review

- In 2018, we brought on production our first exploratory well (100% working interest) in the South Battonya concession of Hungary, which we drilled and tested in the first quarter of 2018. We also continued to prepare for our 2019 drilling campaigns in Hungary, Slovakia and Croatia. Other exploration activities performed through 2018 included the acquisition of 2D seismic data in Croatia, further interpretation of 3D seismic data in Hungary, and expanding our land position in Slovakia.

General and administration

- Fluctuations in general and administration expense for the three months and year ended December 31, 2018 versus all comparable periods were due to allocations to the various business unit segments.

Current income taxes

- Taxes in our corporate segment relate to holding companies that pay current taxes in foreign jurisdictions.

Interest expense

- The increase in interest expense in Q4 2018 versus Q3 2018 was due to higher drawings on the revolving credit facility.
- For the three months and year ended December 31, 2018, interest expense increased versus the comparative periods in 2017 due to the impact of higher drawings on the revolving credit facility, as well as the impact of IFRS 16 adoption in 2018. Please refer to "Recently Adopted Accounting Pronouncements" for additional information regarding the adoption of IFRS 16.

Realized gain or loss on derivatives

- The realized loss on derivatives for the year ended December 31, 2018 is related primarily to amounts paid on crude oil and European natural gas hedges.
- A listing of derivative positions as at December 31, 2018 is included in “Supplemental Table 2” of this MD&A.

Financial Performance Review

($M except per share)	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016
Total assets	**6,270,671**	3,974,965	4,087,184
Long-term debt	**1,796,207**	1,270,330	1,362,192
Petroleum and natural gas sales	**1,678,117**	1,098,838	882,791
Net earnings (loss)	**271,650**	62,258	(160,051)
Net earnings (loss) per share			
Basic	**1.93**	0.52	(1.38)
Diluted	**1.91**	0.51	(1.38)
Cash dividends ($/share)	**2.72**	2.58	2.58

($M except per share)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Petroleum and natural gas sales	**456,939**	508,411	394,498	318,269	317,341	248,505	271,391	261,601
Net earnings (loss)	**323,373**	(15,099)	(61,364)	24,740	8,645	(39,191)	48,264	44,540
Net earnings (loss) per share								
Basic	**2.12**	(0.10)	(0.46)	0.20	0.07	(0.32)	0.40	0.38
Diluted	**2.10**	(0.10)	(0.46)	0.20	0.07	(0.32)	0.39	0.37

The following table shows the calculation of fund flows from operations:

	Q4 2018		Q3 2018		Q4 2017		2018		2017	
	$M	$/boe	$M	$/boe	$M	$/boe	$M	$/boe	$M	$/boe
Petroleum and natural gas sales	**456,939**	**48.90**	508,411	57.90	317,341	47.49	**1,678,117**	**52.95**	1,098,838	44.41
Royalties	**(43,874)**	**(4.70)**	(53,786)	(6.13)	(23,541)	(3.52)	**(152,167)**	**(4.80)**	(74,476)	(3.01)
Petroleum and natural gas revenues	**413,065**	**44.20**	454,625	51.77	293,800	43.97	**1,525,950**	**48.15**	1,024,362	41.40
Transportation	**(16,938)**	**(1.81)**	(13,721)	(1.56)	(11,986)	(1.79)	**(51,887)**	**(1.64)**	(43,448)	(1.76)
Operating	**(112,470)**	**(12.04)**	(97,758)	(11.13)	(65,240)	(9.76)	**(357,014)**	**(11.26)**	(242,267)	(9.79)
General and administration	**(12,814)**	**(1.37)**	(13,234)	(1.51)	(15,941)	(2.39)	**(51,929)**	**(1.64)**	(54,373)	(2.20)
PRRT	**2,422**	**0.26**	254	0.03	(3,572)	(0.53)	**(4,824)**	**(0.15)**	(19,819)	(0.80)
Corporate income taxes	**(7,946)**	**(0.85)**	(9,401)	(1.07)	2,330	0.35	**(38,753)**	**(1.22)**	(12,288)	(0.50)
Interest expense	**(20,827)**	**(2.23)**	(19,772)	(2.25)	(13,710)	(2.05)	**(72,759)**	**(2.30)**	(57,313)	(2.32)
Realized (loss) gain on derivative instruments	**(28,319)**	**(3.03)**	(37,365)	(4.26)	(7,493)	(1.12)	**(111,258)**	**(3.51)**	4,721	0.19
Realized foreign exchange loss	**5,894**	**0.63**	(3,100)	(0.35)	2,899	0.43	**243**	**0.01**	2,316	0.09
Realized other income	**275**	**0.03**	177	0.02	166	0.02	**883**	**0.03**	674	0.03
Fund flows from operations	**222,342**	**23.79**	260,705	29.69	181,253	27.13	**838,652**	**26.47**	602,565	24.34

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

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

	Q4 2018	Q3 2018	Q4 2017	2018	2017
Fund flows from operations	**222,342**	260,705	181,253	**838,652**	602,565
Equity based compensation	**(16,979)**	(13,056)	(16,087)	**(60,746)**	(61,579)
Unrealized gain (loss) on derivative instruments	**273,096**	(75,829)	(80,012)	**109,326**	(1,062)
Unrealized foreign exchange (loss) gain	**(36,366)**	(23,044)	40,660	**(63,243)**	71,742
Unrealized other expense	**(204)**	(203)	(197)	**(801)**	(637)
Accretion	**(8,205)**	(8,041)	(6,991)	**(31,219)**	(26,971)
Depletion and depreciation	**(174,435)**	(166,343)	(129,179)	**(609,056)**	(491,683)
Deferred tax	**(64,084)**	10,712	19,198	**(39,471)**	(30,117)
Gain on business combinations	**128,208**	—	—	**128,208**	—
Net earnings	**323,373**	(15,099)	8,645	**271,650**	62,258

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

Equity based compensation

Equity based compensation expense relates primarily to non-cash compensation expense attributable to long-term incentives granted to directors, officers, and employees under security-based arrangements, including the Vermilion Incentive Plan ("VIP") and a security-based compensation arrangement ("Five-Year Compensation Arrangement").

Equity based compensation expense increased in Q4 2018 compared to Q3 2018 and Q4 2017, primarily due to a higher number of outstanding share awards in Q4 2018. For the year ended December 31, 2018, equity based compensation was relatively consistent versus the comparable period in 2017.

Unrealized gain or loss on derivative instruments

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

For the three months and year ended December 31, 2018, we recognized unrealized gains on derivative instruments of $273.1 million and $109.3 million, respectively. The unrealized gains primarily related to European natural gas and crude oil derivative instruments for 2019 through 2021.

Unrealized foreign exchange gains or losses

As a result of Vermilion's international operations, Vermilion has monetary assets and liabilities denominated in currencies other than the Canadian dollar. These monetary assets and liabilities include cash, receivables, payables, long-term debt, derivative instruments and intercompany loans. These monetary assets primarily relate to Euro denominated intercompany loans from Vermilion Energy Inc. to our international subsidiaries. These monetary liabilities primarily relate to our US$300.0 million senior unsecured notes.

Unrealized foreign exchange gains and losses result from translating these monetary assets and liabilities from their underlying currency to the Canadian dollar. Unrealized foreign exchange gains and losses primarily results from the translation of Euro denominated intercompany loans and US dollar denominated long-term debt. As such, an appreciation in the Euro against the Canadian dollar will result in an unrealized foreign exchange gain while an appreciation in the US dollar against the Canadian dollar will result in an unrealized foreign exchange loss (and vice-versa).

For the three months and year ended December 31, 2018, the impact of the Canadian dollar weakening against the US dollar was more significant than the impact of the Canadian dollar weakening against the Euro, resulting in unrealized losses on foreign exchange of $36.4 million and $63.2 million, respectively.

As at December 31, 2018, a $0.01 appreciation of the Euro against the Canadian dollar would result in a $2.2 million increase to net earnings as a result of an unrealized gain on foreign exchange. In contrast, a $0.01 appreciation of the US dollar against the Canadian dollar would result in a $3.0 million decrease to net earnings as a result of an unrealized loss on foreign exchange.

Accretion

Accretion expense is recognized to update the present value of the asset retirement obligation balance. The increase in accretion expense for the three months and year ended December 31, 2018 versus the comparable periods in 2017 was primarily attributable to new obligations recognized following acquisitions in 2018. For the three months ended December 31, 2018, accretion expense was relatively consistent with the prior quarter.

Depletion and depreciation

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

Fluctuations in depletion and depreciation expense are primarily the result of changes in produced crude oil and natural gas volumes and changes in depletion and depreciation per unit. Fluctuations in depletion and depreciation per unit are the result of changes in reserves, future development costs, and relative production mix.

Depletion and depreciation on a per boe basis for the year ended December 31, 2018 of $19.22 was slightly lower than the $19.87 per boe rate in 2017, despite a significant increase in higher cost crude oil production and an increase in depreciation expense following the recognition of right-of-use assets under IFRS 16 due to continued increases in our proved plus probable reserves.

Deferred tax

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

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

For the three months and year ended December 31, 2018, deferred tax expense of $64.1 million and $39.5 million were primarily attributable to unrealized gains on derivative instruments and the accelerated deduction of capital expenditures incurred on the drilling program in Australia for PRRT purposes (which decreased PRRT expense but correspondingly increased deferred tax expense). These taxable temporary differences were partially offset by the recognition of additional tax losses in Ireland that are expected to be utilized due to higher European natural gas pricing forecasts.

Taxes

Current income tax rates

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

For 2018 and 2017, taxable income was subject to corporate income tax at the following rates:

Jurisdiction	2018	2017
Canada	27.0%	27.0%
France	34.4%	34.4%
Netherlands (1)	50.0%	50.0%
Germany (2)	30.2%	26.3%
Ireland	25.0%	25.0%
Australia	30.0%	30.0%
United States	21.0%	35.0%

(1) In the Netherlands, an additional 10% uplift deduction is allowed against taxable income that is applied to operating expenses, eligible general and administration expenses and tax deductions for depletion and abandonment retirement obligations.
(2) In 2018, the German Business Unit moved its central office to a new German municipality with a higher trade tax rate.

Tax legislation changes

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law in the United States. The Tax Cuts and Jobs Act reduces the U.S. federal corporate income tax rate to 21%.

On December 21, 2017, the French Parliament approved the Finance Bill for 2018. The Finance Bill for 2018 provides for a progressive decrease of the French corporate income tax rate from 34.43% to 25.825% by 2022, with the first reduction planned for 2019 to 32.02%.

On December 18, 2018, the Dutch government approved the 2019 Tax Plan. The Bill provides for reduced corporate tax rates from 25.0% to 20.5% by 2021, with the first reduction planned for 2020 to 22.55%. Due to the tax regime applicable to natural gas producers in the Netherlands, the reduction to the corporate tax rate is not expected to have a material impact to Vermilion taxes in the Netherlands.

Tax pools

As at December 31, 2018, we had the following tax pools:

($M)	Oil & Gas Assets		Tax Losses		Other	Total
Canada	2,317,044	(1)	1,052,664	(4)	36,192	3,405,900
France	317,062	(2)	11,086	(5)	—	328,148
Netherlands	66,947	(3)	—		—	66,947
Germany	175,756	(3)	98,787	(6)	11,932	286,475
Ireland	—		1,301,395	(4)	—	1,301,395
Australia	298,054	(1)	10,486	(4)	—	308,540
United States	214,965	(1)	101,928	(7)	10,184	327,077
Total	**3,389,828**		**2,576,346**		**58,308**	**6,024,482**

(1) Deduction calculated using various declining balance rates
(2) Deduction calculated using a combination of straight-line over the assets life and unit of production method
(3) Deduction calculated using a unit of production method
(4) Tax losses can be carried forward and applied at 100% against taxable income
(5) Tax losses carried forward are available to offset the first €1 million of taxable income and 50% of taxable profits in excess each taxation year
(6) Tax losses carried forward are available to offset the first €1 million of taxable income and 60% of taxable profits in excess each taxation year
(7) Tax losses created prior to January 1, 2018 are carried forward and applied at 100% against taxable income, tax losses created after January 1, 2018 are carried forward and applied to 80% of taxable income in each taxation year

Financial Position Review

Balance sheet strategy

We believe that our balance sheet supports our defined growth initiatives and our focus is on managing and maintaining a conservative balance sheet. To ensure that our balance sheet continues to support our defined growth initiatives, we regularly review whether our forecast of fund flows from operations is sufficient to finance planned capital expenditures, dividends, and abandonment and reclamation expenditures. To the extent that forecasted fund flows from operations is not expected to be sufficient to fulfill such expenditures, we will evaluate our ability to finance any shortfall with debt (including borrowing using the unutilized capacity of our existing revolving credit facility), issue equity, or by reducing some or all categories of expenditures to ensure that total expenditures do not exceed available funds.

To ensure that we maintain a conservative balance sheet, we monitor the ratio of net debt to fund flows from operations.

We remain focused on maintaining and strengthening our balance sheet by aligning our exploration and development capital budget with forecasted fund flows from operations to target a payout ratio (a non-GAAP financial measure) of approximately 100%. We continually monitor for changes in forecasted fund flows from operations as a result of changes to forward commodity prices and as appropriate we will adjust our exploration and development capital plans. As a result of our focus on this payout ratio target, we intend for the ratio of net debt to fund flows from operations to trend towards 1.5 over time.

Due to the timing of payments on our fourth quarter drilling activity in Canada and Australia, we had a working capital deficit of $133.3 million as at December 31, 2018. Vermilion intends to fund this working capital deficiency through fund flows from operations generated in 2019 and unutilized capacity on our revolving credit facility.

Net debt

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

	As at	
($M)	Dec 31, 2018	Dec 31, 2017
Long-term debt	**1,796,207**	1,270,330
Current liabilities	**563,199**	363,306
Current assets	**(429,877)**	(261,846)
Net debt	**1,929,529**	1,371,790
Ratio of net debt to quarterly annualized fund flows from operations	**2.17**	1.89
Ratio of net debt to fund flows from operations	**2.30**	2.28

As at December 31, 2018, net debt increased to $1.93 billion (December 31, 2017 - $1.37 billion) due to the impact of the acquisitions closed in 2018. This increase was partially offset by a $115.6 million decrease in net current derivative liability and an increase in fund flows from operations, which resulted in an increase in the ratio of net debt to fund flows from operations from 2.28 for 2017 to 2.30 for 2018.

Year-end net debt to fund flows from operations of 2.30 compares to our previous forecast of year end net debt to fund flows from operations of 1.7 times as announced in our press release on April 16, 2018 ("Vermilion Energy Inc. Announces Acquisition of Spartan Energy Corp."). The increase in the ratio of net debt to fund flows from operations from forecast resulted from a decrease in crude oil prices in Q4 2018 and incremental debt assumed on our acquisition in the United States in Q3 2018.

Long-term debt

The balances recognized on our balance sheet are as follows:

	As at	
($M)	Dec 31, 2018	Dec 31, 2017
Revolving credit facility	**1,392,206**	899,595
Senior unsecured notes	**404,001**	370,735
Long-term debt	**1,796,207**	1,270,330

Revolving Credit Facility

In Q2 2018, we negotiated an increase in our revolving credit facility from $1.4 billion to $1.6 billion and an extension of the maturity from May 31, 2021 to May 31, 2022. In Q3 2018, we negotiated a further increase in our revolving credit from $1.6 billion to $1.8 billion.

Subsequent to December 31, 2018, we negotiated an additional increase in our revolving credit facility from $1.8 billion to $2.1 billion. This additional debt capacity provides us with additional working capital and operational flexibility. There were no changes to the facility maturity date or applicable covenants as a result of this increase.

As at December 31, 2018, Vermilion had in place a bank revolving credit facility maturing May 31, 2022 with terms, outstanding positions, and covenants. as follows:

	As at	
($M)	Dec 31, 2018	Dec 31, 2017
Total facility amount	**1,800,000**	1,400,000
Amount drawn	**(1,392,206)**	(899,595)
Letters of credit outstanding	**(15,400)**	(7,400)
Unutilized capacity	**392,394**	493,005

As at December 31, 2018, the revolving credit facility was subject to the following covenants:

		As at	
Financial covenant	Limit	Dec 31, 2018	Dec 31, 2017
Consolidated total debt to consolidated EBITDA	4.0	**1.72**	1.87
Consolidated total senior debt to consolidated EBITDA	3.5	**1.34**	1.30
Consolidated total senior debt to total capitalization	55%	**30%**	32%

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

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

Senior Unsecured Notes

On March 13, 2017, Vermilion issued US$300 million of senior unsecured notes at par. The notes bear interest at a rate of 5.625% per annum, paid semi-annually on March 15 and September 15, and mature on March 15, 2025. As direct senior unsecured obligations of Vermilion, the notes rank equally in right of payment with existing and future senior indebtedness of the Company.

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

Vermilion may, at its option, redeem the senior unsecured 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 but excluding 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 a “make-whole” 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%

Shareholders' capital

Beginning with the April 2018 dividend paid on May 15, 2018, we increased our monthly dividend by 7%, to $0.23 per share from $0.215 per share. The dividend increase in Q2 2018 was our fourth dividend increase (previously Vermilion's distribution in the income trust era) since we began paying a distribution in 2003.

In total, dividends declared in 2018 were $388.1 million.

The following table outlines our dividend payment history:

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

Our policy with respect to dividends is to be conservative and maintain a low ratio of dividends to fund flows from operations. During low commodity price cycles, we will initially maintain dividends and allow the ratio to rise. Should low commodity price cycles remain for an extended period of time, we will evaluate the necessity of changing the level of dividends, taking into consideration capital development requirements, debt levels, and acquisition opportunities.

Although we expect to be able to maintain our current dividend, fund flows from operations may not be sufficient to fund cash dividends, capital expenditures, and asset retirement obligations. We will evaluate our ability to finance any shortfall with debt, issuances of equity, or by reducing some or all categories of expenditures to ensure that total expenditures do not exceed available funds.

The following table reconciles the change in shareholders' capital:

Shareholders' Capital	Number of Shares ('000s)	Amount ($M)
Balance at December 31, 2017	**122,119**	**2,650,706**
Shares issued for corporate acquisition	**27,883**	**1,234,676**
Shares issued for the Dividend Reinvestment Plan	**1,179**	**49,051**
Vesting of equity based awards	**1,025**	**54,057**
Equity based compensation	**314**	**12,565**
Share-settled dividends on vested equity based awards	**184**	**7,773**
Balance as at December 31, 2018	**152,704**	**4,008,828**

As at December 31, 2018, there were approximately 1.9 million equity based compensation awards outstanding. As at February 27, 2019, there were approximately 152.8 million common shares issued and outstanding.

Contractual Obligations and Commitments

As at December 31, 2018, we had the following contractual obligations and commitments:

($M)	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years	Total
Long-term debt [1]	78,604	157,208	1,435,616	443,791	2,115,219
Lease obligations	30,798	49,743	34,313	42,739	157,593
Processing and transportation agreements	25,844	24,835	10,902	34,371	95,952
Purchase obligations	33,223	16,223	1,379	—	50,825
Drilling and service agreements	26,667	28,933	41,976	5,301	102,877
Total contractual obligations and commitments	195,136	276,942	1,524,186	526,202	2,522,466

(1) Interest on revolving credit facility calculated assuming an annual interest rate of 4%.

Asset Retirement Obligations

As at December 31, 2018, asset retirement obligations were $650.2 million compared to $517.2 million as at December 31, 2017.

The increase in asset retirement obligations is largely attributable to additional obligations recognized as a result of acquisitions completed in 2018.

Risks and Uncertainties

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

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

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

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

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

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

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

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

Financial Risk Management

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

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

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

Critical Accounting Estimates

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

The carrying amount of asset retirement obligations

The carrying amount of asset retirement obligations ($650.2 million as at December 31, 2018) is the present value of estimated future costs, discounted from the estimated abandonment date using a credit-adjusted risk-free rate. Estimated future costs are based on our assessment of regulatory requirements and the present condition of our assets. The estimated abandonment date is based on the reserve life of the associated assets. The credit-adjusted risk-free rate is based on prevailing interest rates for appropriate term, risk-free government bonds adjusted for our estimated credit spread (determined by reference to the trading prices for debt issued by similarly rated independent oil and gas producers, including our own senior unsecured notes). Changes in these estimates would result in a change in the carrying amount of asset retirement obligations and capital assets and, to a significantly lesser degree, future accretion and depletion expense.

The estimated abandonment date may change from period to period as the estimated abandonment date changes in response to new information, such as changes in reserve life assumptions or regulations. A one year increase or decrease in the estimated abandonment date would decrease or increase asset retirement obligations (with an offsetting increase to capital assets) by approximately $25.0 million.

The estimated credit-adjusted risk-free rate may change from period to period in response to market conditions in Canada and the international jurisdictions that we operate in. An 0.5% increase or decrease in the credit-adjusted risk-free rate would decrease or increase asset retirement obligations by approximately $55.0 million.

The recognition of deferred tax assets in Ireland

In Ireland, we have $0.5 billion of non-expiring tax loss pools where $127.9 million of deferred tax assets has not been recognized as there is uncertainty on our ability to fully use these losses based on estimated future taxable profits. Estimated future taxable profits are calculated using proved and probable reserves and forecast pricing for European natural gas.

As a result, the carrying value of deferred tax assets may change from period-to-period due to changes in forecast pricing for European natural gas. A 5% increase or decrease in proved and probable reserves in our Ireland segment would increase or decrease deferred tax assets (with a corresponding deferred tax recovery or expense) by approximately $17.0 million. A €0.50/GJ increase or decrease in forecast European natural gas prices would increase or decrease deferred tax assets (with a corresponding deferred tax recovery or expense) by approximately $26.0 million.

The amount of finance lease obligations recognized on adoption of IFRS 16

Effective January 1, 2018, Vermilion adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as a $97.1 million increase to lease obligations with a corresponding increase to right-of-use assets. The amount of lease obligation (and therefore the amount of right-of-use assets) recognized was calculated as the present value of future lease payments, discounted using our estimated incremental borrowing rate. The estimated incremental borrowing rate reflects the interest rate we would estimate receiving to borrow funds for a similar term and security to acquire the right-of-use asset. Changes in the estimated incremental borrowing rate would change the amount of lease obligations and right-of-use assets recognized on initial adoption and, to a significantly lesser degree, would impact future interest expense and depreciation expense. Based on attributes of our identified leases (including the term of the lease and the country the asset is leased in), we applied a weighted average incremental borrowing rate of 5.4%. A 1% increase or decrease in the estimated incremental borrowing rate would have decreased or increased lease obligations and right-of-use assets recognized on initial adoption by approximately $4.0 million.

The fair value of capital assets acquired in business combinations

In preparing the purchase price allocations for the business combinations completed in 2018, we estimate the fair value of assets acquired. Assets acquired in an acquisition primarily relates to the crude oil and natural gas reserves. The estimated fair value of the crude oil and natural gas reserves acquired is based on the present value of proved plus probable reserves and forecast commodity prices. Changes in these assumptions would change the amount of capital assets recognized and as a result would also impact any goodwill or gain recognized on the acquisition and future depletion and depreciation expense.

The estimated recoverable amount of cash generating units

Each reporting period, we assess our cash generating units for indicators of impairment or impairment reversal. If an indicator of impairment or impairment reversal is identified, we estimate the recoverable amount of the cash generating unit. During the years ended December 31, 2017 and 2018, no indicators of impairment were identified. As a result, the recoverable amount of cash generating units were not critical accounting estimates.

Off Balance Sheet Arrangements

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

Recently Adopted Accounting Pronouncements

IFRS 9 "Financial Instruments"

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

IFRS 15 "Revenue from contracts with customers"

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

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

IFRS 16 "Leases"

IFRS 16 "Leases" is required to be applied on or after January 1, 2019. The stated objective of IFRS 16 is to provide information that faithfully represents lease transactions and provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. IFRS 16 accomplishes this by introducing a single lessee accounting model that requires lessees to recognize a lease obligation and right-of-use asset for the majority of leases. As the Company completed the assessment of the standard and applicable contracts during Q3 2018, Vermilion elected for earlier application of IFRS 16 to achieve the stated objectives of the standard and to increase comparability of results in future periods. Vermilion began applying the standard effective January 1, 2018.

Effective January 1, 2018, Vermilion applied IFRS 16 retrospectively with the cumulative effect of initially applying the standard recognized as a $97.1 million increase to right-of-use assets (included in "Capital assets") and lease obligations ($86.1 million recorded in "Lease obligations" and $11.0 million recorded in "Accounts payable and accrued liabilities"). The right-of-use assets and lease obligations recognized largely relate to the Company's head office lease in Calgary and long-term leases for oil storage facilities in France.

Health, Safety and Environment

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

We maintain health, safety and environmental practices and procedures in compliance with or exceeding regulatory requirements and industry standards. All of our personnel are expected to work safely and in accordance with established regulations and procedures, and we seek to reduce impacts to land, water and air. During 2018 we:

- Maintained clear priorities around 5 key focus areas of HSE Culture, Communication and Knowledge Management, Technical Safety Management, Incident Prevention and Operational Stewardship & Sustainability;
- Continued comprehensive investigations of our incidents and near misses to ensure root causes were identified and corrective actions effectively implemented;
- Completed and gained regulatory acceptance of the Corrib Production Safety Case;
- Completed maturity assessments of the HSE MS elements for each business unit;
- Received ISO 5001 certification for the German Business Unit energy management program;

- Completed numerous corporate policy/standard audits/assessments related to operational risk management, contractor management, marine transportation and drug and alcohol;
- Implemented "Vermilion High 5", an individual safety awareness initiative aimed at keeping front line workers safe;
- Further developed and validated critical procedures and implemented fit-for-purpose training and competency programs;
- Implemented a comprehensive HSE integration plan for Vermilion's new and emerging operations (includes Central and Eastern Europe, Germany, United States, Ireland and Canada expansion);
- Reported our CO2e emissions to the CDP highlighting the implementation of 40 projects that reduced our gross emissions by 15,000 tonnes CO2e while increasing production;
- Completed and published our Corporate Sustainability Report with emphasis on improving energy efficiency, greenhouse gas emissions reduction and water efficiency optimization;
- Managed our waste products by reducing, recycling and recovering;
- Reduced long-term environmental liabilities through decommissioning, abandoning and reclaiming well leases and facilities;
- Further refined and expanded our enterprise wide corporate risk register;
- Expanded our company-wide HSE leadership training program to improve hazard identification and risk reduction;
- Continued the development of a robust hazard identification and risk mitigation program specific to environmentally sensitive areas;
- Continued the development of our Corporate Process Safety Management System with emphasis on Process Hazards Analysis and risk reduction measures;
- Performed auditing, management inspections and workforce observations to measure compliance and identify potential hazards and apply risk reduction measures; and
- Developed, communicated and measured against leading and lagging HSE key performance indicators;

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

Environmental, Social and Governance (ESG)

Furthering our focus on sustainability (ESG) strategy, in 2018 we reviewed recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). We subsequently updated our sustainability reporting in general to illustrate Vermilion's alignment with these recommendations, focusing on climate, but also on sustainability issues and opportunities in a wider context. In 2018, our Board of Directors also established a Sustainability Committee to provide further support on issues related to sustainability, including climate. Our 2018 performance in sustainability rankings such as CDP, RobecoSAM and Sustainalytics continued to be top of our peer group.

Sustainability

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

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

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

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

To support our strategy, we regularly communicate with our stakeholders, including via our sustainability reporting. In 2018, reflecting our review of TCFD recommendations, we updated our engagement to include a broader inclusion of sustainability in regulatory reporting.

For more information, please see references to sustainability throughout this document, including the Climate Risk discussion. For additional context, our Sustainability Report is available online at www.vermilionenergy.com (under the heading "Our Responsibility").

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

Accomplishments

- Vermilion was named to the CDP Climate Leadership Level (A-) for the second consecutive year in 2018. We were the only Canadian oil and gas company and one of only two North American oil and gas companies to receive this designation, ranking Vermilion in the top 5% of oil and gas companies globally.
- The Company received a top quartile ranking for our industry sector in RobecoSAM's annual Corporate Sustainability Assessment ("CSA"). The CSA analyzes sustainability performance across economic, environmental, governance and social criteria, and is the basis of the Dow Jones Sustainability Indices.
- Vermilion was ranked top of our peer group in the Sustainalytics ESG (environment, social, governance) rankings.
- Vermilion's MSCI ESG rating continued at A for 2018, marking the second consecutive year Vermilion has scored at this level, and our Governance Metrics score ranked in the top decile globally.
- We received ISS QualityScore decile ratings of 1 for Environmental and 2 for Social, which assess corporate disclosure and transparency practices in these areas, where 1 indicates lowest risk.
- Vermilion has earned recognition on the Corporate Knights' Future 40 Responsible Corporate Leaders in Canada listing every year since the list's inception in 2014. In 2018, we ranked 11th, and were the highest rated oil and gas company on the list.
- In February 2018, Vermilion received the Finance and Sustainability Initiative's ("FSI") award for Best Sustainability Report in the Non-Renewable Resources - Oil and Gas category. In 2019, we were a finalist for the same award. Based in Montreal, the FSI is a non-profit organization dedicated to promoting sustainable finance and, more specifically, responsible investment to financial institutions, companies, and universities. Sustainability reports were graded on a number of criteria, including transparency and balance, reliability and completeness, and the use of ESG materiality.

Climate-related Disclosures

Vermilion has publicly released our identified climate risks and opportunities since our first annual CDP Climate Response in 2014. In alignment with recommendations from the Task Force on Climate-related Financial Disclosures, under the TCFD's Strategy category, we are also including them in this document. For more information on our sustainability-related governance, strategy, risk management, and metrics and targets, including those related to climate, please see our 2019 Proxy Statement and Information Circular, and our online sustainability reporting, particularly the Performance Metrics section and our 2018 CDP Response.

Risk / Opportunity	Description of Impacts[1,2] - Risk Category - Risk Timeframe	Potential Financial Impact	Management Context
Increased Pricing of GHG Emissions e.g. Carbon Tax	- Policy and Legal - Short-term Vermilion's operations were subject to carbon taxation in Alberta, Canada starting in January 2017 and potentially in Saskatchewan as a result of a Canada-wide carbon tax in 2019, affecting the cost of operating in our Canada Business Unit.	The current financial impact of taxation currently does not exceed $0.5MM per annum. We anticipate this to increase in the medium-term.	The potential financial impact is based on proposed changes to carbon pricing in our operating regions out to 2023, resulting in expansion of emission sources covered. This estimate is based on the probable cost scenario identified in our Carbon Liability Assessment Tool.
Enhanced Emissions Reporting Obligations	- Policy and Legal - Short-term Emissions reporting obligations are an ongoing risk and have the can change due to political and regulatory evolution. The impact to Vermilion would be a decreased netback on a per BOE basis, due to increased expenditures for personnel time and system development and implementation, to allow for more robust emissions quantification.	Based on our current output in Alberta, France and the Netherlands, current regulated thresholds, and growth, we anticipate that cost associated with meeting emission reporting obligations will increase in the short-term, likely as a small increase in operational costs.	Regulations in all of our business units are monitored on an ongoing basis, and assumptions/ scenario planning is used annually to assess risk. Vermilion also engages stakeholders relating to emissions reporting obligations. Management of this risk is built into Vermilion's operations and our Enterprise Risk Matrix.
Mandates on and Regulation of Existing Products and Services	- Policy and Legal; Technology - Short-term Vermilion's operations are subject to regional regulatory changes that result in changes to equipment requirements such as engineering and equipment modifications to reduce carbon emissions and / or emissions of criteria air contaminants.	In Canada, operational modifications required to comply with Directive 039 are estimated to have cost $1MM by the end of implementation in 2018. The costs associated with the Netherlands MJA3 program are built into our operating costs and no significant expenditures are anticipated in the near term.	Vermilion's participation in the MJA3 program in the Netherlands since 2005, for example, has resulted in projects that have reduced our operations energy intensity by 76%. Such regulatory changes continue to lead Vermilion to complete engineering reviews and facility updates resulting in emission reductions beyond regulatory requirements.

Risk / Opportunity	Description of Impacts[1,2] - Risk Category - Risk Timeframe	Potential Financial Impact	Management Context
Changes in Emissions Regulations	- Policy and Legal - Medium-term The risk associated with a change in emission regulations in one or more of our business units is accounted for by Vermilion's Enterprise Risk Matrix, with mitigation measures are reviewed, updated and implemented on an annual basis. A shift in international regulations may also result in an impact to Vermilion's supply chain, resulting in a limitation of market access or direct impact to the price of our products. As Vermilion maintains a diversified asset base, we believe the risk to the marketability of our products is low.	Following the COP21 conference, the importance of sustainable development and reduction of emission levels was confirmed by the commitments made by national governments. Based on the anticipated changes in the various regulatory regimes under which Vermilion operates, the financial impact due to a regulatory change over the next 3 years is anticipated to be less than $2.5MM. This does not include the cost associated with emission reduction projects completed on an annual basis, or previous projects that have annual emissions reductions.	The formalization of Integrated Sustainability as a strategic objective in Vermilion's long-term strategic plan allows us to better understand, identify, proactively respond and manage the potential risk and uncertainty inherent in an evolving sustainability framework, both at a regional and corporate level. As an example, beginning in 2017, Vermilion added requirements to assess capital expenditures for potential sustainability-related impacts.
Changes in Temperature Extremes	- Physical - Long-term A decrease in temperature extremes experienced in the winter months (i.e. lower seasonal lows) could increase the amount of fuel gas used by a variety of equipment essential for safe production. Additional equipment could also be required (e.g. building heaters, line heaters) to ensure safe and efficient operation, thus increasing our carbon footprint and costs. Temperature extremes could also increase capital costs associated with drilling, completion and workover operations due to increased timelines, decreased productivity, equipment breakdown, etc. For example, warmer winters would have a direct impact on Vermilion's more northern operations, through a decreased ability to access lands and increased construction capital requirements.	The financial implications on an annual basis are difficult to quantify; however, based on Vermilion's experience, the most significant financial implications would result from shutdowns in drilling or completions locations. The estimated cost of this would be $0.5MM per day of delay.	As extreme weather cannot be controlled, Vermilion uses our various Management Systems and processes to protect the health and safety of our workers, contractors and the public, and to protect the environment from adverse effect. As an example of how we have reduced the potential impact related to access in remote assets, we use multi-well pads wherever possible, with multiple horizontal wells drilled from a single location. This reduces the aerial impact of these activities on the environment, habitat fragmentation and carbon emissions associated with lease construction and equipment mobilization/demobilization. Using multi-well locations would significantly decrease capital considerations in the event that limited frost days were realized in the coming years.
Changes In Precipitation Patterns and Extreme Variability in Weather Patterns	- Physical - Long-term Vermilion holds assets inland, in coastal regions, and offshore. A change in precipitation in any of these locations could have a negative impact on operations due to drought or flooding. Flooding could result in limited access to locations / facilities, and poses a risk to our corporate headquarters. Alternatively, drought conditions could impact the availability of surface and / or groundwater, which Vermilion, in part, relies on for drilling and completion activities. This could negatively impact forecasted growth by increasing the timelines and capital costs to bring new infrastructure onto production.	The financial implications of a single time event (e.g. wildfire) and continued strain event (e.g. drought) have been assessed on a case-specific basis, and the financial implications of these events is believed to be manageable (impact under $10MM). Vermilion maintains insurance to mitigate the potential impact of precipitation extreme events (e.g. flooding). Insurance for locations that have been identified as potentially being impacted by drought-induced events (e.g. wildfire) is estimated at $0.45MM per annum.	As these incidents are beyond Vermilion's control, we take measures to ensure effective emergency response to extreme weather events, to protect the health and safety of our workers, contractors and the public, to protect the environment, and to limit the financial impact of the event. In the case of a longer term extreme precipitation event or drought, Vermilion has implemented water management programs to reduce our reliance on fresh water sources.
Rising Sea Levels	- Physical - Long-term Vermilion owns and operates assets in the Netherlands. We have identified and assessed the potential risk associated with rising sea levels here, as it has the potential to physically impact our operations due to issues such as flooding, transportation difficulties and supply chain interruptions. Rising sea levels also pose a threat related to the salinization of groundwater.	Vermilion reviews the potential impact of rising sea levels annually as part of our Corporate Risk Matrix. We estimate the potential total financial implication to be $153MM, before mitigation measures, in our Netherland operations.	There is no measure available to protect Vermilion's Netherlands assets in the event that water levels rise to a level that would impact facilities below sea level. Salinization of the groundwater regime would impact the entire region; similarly, no measures are currently available to protect against this. Based on Vermilion's assessment of the probability of these events occurring over the next 5 years being less than 0.5%, we have accepted this level of risk exposure.
Increased Severity of Extreme Weather Events such as Cyclones and Floods	- Physical - Medium-term Vermilion owns and operates an offshore platform in the Wandoo field off northwestern Australia, and co-owns and operates the Corrib project off the Irish coast. Extreme weather events such as cyclones have the potential to directly impact our offshore operations resulting in down time or damage to infrastructure, and can impact the downstream handling capacity of our partners, resulting in a limitation to the distribution and sale of our products.	Based on the value of the Wandoo Platform and a 1-in-2000 year cyclonic event, the financial implications associated with damage due to a severe weather event is estimated at $179MM (total impact before insurance). The third-party costs associated with potential damages from extreme weather events are not tracked by Vermilion.	Vermilion maintains insurance as a mitigative measure to reduce the financial impact associated with damage to our assets due to severe weather events. We also have protocols for monitoring and preparing for cyclones, and have invested in our emergency response capabilities in the event of damage to our assets as a result of a cyclone or severe weather event. Operational changes are made as required to ensure (in order of priority) worker health and safety, protection of the environment, and protection of Vermilion's assets.

Risk / Opportunity	Description of Impacts[1,2] - Risk Category - Risk Timeframe	Potential Financial Impact	Management Context
Changing Customer Behaviour	- Market; Reputational - Long-term As consumers and governments become more socially aware of the sources of their energy, negative perceptions of organizations or production methods have the potential to impact energy sector companies through company valuations, restricted licensing and permitting, and stakeholder opposition.	The impact of decreased consumer confidence and perception is not calculable. On a per share basis, the market impact of the loss of $1 per share would be approximately $152MM. The direct cost of Vermilion's operating excellence and risk management cannot be quantified on a single risk basis.	Vermilion is positioned within the evolving energy transition, with an unwavering commitment to our priorities of health and safety, environmental protection, and economic prosperity. We believe that those commitments, and our contributions to the UN SDGs constitute qualitative advantages that set us apart from our competitors. Sustainable practices are ingrained into the way we operate, and we will continue to focus on our Integrated Sustainability strategic objective. We believe this advantage attracts investors to Vermilion and will continue to give Vermilion a competitive advantage in the future.
Opportunity: Participation in Carbon Market	- Financial - Medium term The European Union Emissions Trading Scheme (ETS) allows for the generation and movement of certified carbon credits from emissions-saving projects around the world. With the revisions pending in Phase 4, it is anticipated that there will be an active market and consumers for the offset credits generated at some of our sustainability initiatives around the world, likely providing opportunities for Vermilion to generate certified energy reduction and offset credits.	Vermilion is not accounting for any short term financial impact. It is estimated that following the change to the EU ETS in Phase 4, the carbon price will stabilize at between approximately €15 and €30 per tCO2e. The financial impact to Vermilion annually is estimated to be up to $1MM.	We are currently evaluating the benefit that certified offset credits from various emission reduction projects across our operations could provide. Examples of projects with this potential include our Tomato Greenhouse Cogeneration project in France, our partnerships for geothermal applications in residential neighborhoods in France, and our developing geothermal projects in the Netherlands. Vermilion's project assessment framework is applied to each identified opportunity, including considerations associated with emissions offset.
Opportunity: Development of New Products and Services through R&D and Innovation	- Products - Short-term As Vermilion has developed our emissions quantification programs across the globe, we have developed more robust methods for sharing of technologies and techniques from across our operations, both internally and externally. Our increased focus on tracking emissions has supported the assessment of opportunities across business units and sharing of technical expertise.	As this opportunity is in the early stage of assessment, it is difficult to quantify the financial impact, but it is estimated at up to $2MM per year. Potential also exists for significant cost adjustments, as assets slated for abandonment could be repurposed to generate geothermal energy.	We have technical experts who provide input into potential geothermal projects as they are identified. These teams are supported by corporate sustainability staff in connecting internal and external stakeholders. These teams have responsibilities specific to geothermal opportunities as these projects move through their preliminary stages. To further support identification of opportunities, and engagement with stakeholders, Vermilion has appointed sustainability leads in all our business units.
Opportunity: Shift in Consumer Preferences	- Products, Reputational - Long-term Under the Canadian Environmental Protection Act and based on commitments made by the Canadian and Alberta governments relating to COP21, there is a commitment to reduce emissions for coal-fired power generation. Based on this and with a number of power generating facilities in Alberta nearing the end of their service life, the demand for natural gas is likely to increase due to increased use of combined cycle gas turbine (CCGT) power generation. Alberta has also committed to significantly reducing its demand for coal for power generation by 2050.	The short term impact on gas pricing is anticipated to be low, increasing to medium in the mid to long term. Once the regulations are implemented, there is a potential for an increase in the demand and pricing for natural gas, from which Vermilion would benefit. Based on current estimates, an increase in gas price of $1 per mcf would result in a positive impact to sales of approximately $35MM.	As we move further into the energy transition, we foresee natural gas playing an impactful role as a less carbon intense fuel than other options (i.e. coal). Vermilion continues to focus on the identification of resources and assets where we have the opportunity to apply our industry leading expertise to optimize production while reducing emissions. An example of our strategy to realize this opportunity is our asset base in Alberta, which currently includes a large liquids rich gas play. Vermilion's marketing team is also actively pursuing options for our natural gas production that will enable Vermilion to achieve the best netbacks on production.
Opportunity: Ability to Diversify Business Activities	- Products - Long-term Vermilion maintains a diverse, stable global portfolio of oil and gas assets. Our strong record of safe and socially conscious development of energy resources has provided opportunities to access and develop these resources. We see our commitment to sustainability as core to our business, which has provided important organizational focus on emissions quantification and management. As consumers become more aware of and involved in the selection of their energy sources and associated carbon intensity, we believe that Vermilion will continue to be a top quartile choice, providing us with opportunities not available to peer organizations.	The financial impact of changing consumer preferences is difficult to quantify. We foresee opportunities in two distinct areas: first, in consumers selecting premium energy products (top quartile, low carbon intensity), with these products demanding a higher price than other energy sources on the market. Currently we estimate the potential impact of premium pricing in the long term to be $1-5 per boe (24.8MM based on $1 per boe). The second opportunity, which we are already receiving benefit from, is access to more stringent markets, supported by our environmental and sustainability performance, such as our entry into German, Hungarian and Croatian oil and gas operations in the last several years.	Vermilion made the organizational change to established Integrated Sustainability as one of our strategic objectives in 2015. This provided important organizational focus on matters such as environmental performance, including climate change. Our strategy is to continue to support Integrated Sustainability, with personnel who are experts in their field, as well as financially supporting programs and projects that reduce emissions while optimizing production. An example of this is the addition of personnel who have specific responsibilities associated with sustainability in our business units, including study and feasibility assessment of green energy generation.
Opportunity: Shift Toward Decentralized Energy Generation	- Products, Reputational - Long-term The carbon intensity of energy used around the world has a direct relationship to where the energy product was generated. Vermilion's business unit structure supports production and distribution of energy products into local markets. This strategy results in the significant reduction of the carbon footprint of our energy when compared to non-local sources.	On an operating netback (sales) basis, based on current estimates, the financial premium of our non-Canadian assets was $340.8MM. The potential future advantage is anticipated to increase as we expand production in markets outside North America and provide sources of energy to local markets. The costs associated with adjustment of our organizational structure are built into our costs across the company.	Vermilion continues to assess where we can access local markets for our production, while exploring regions to expand our operations. The actions taken in the past several years to realize this opportunity include alterations to our structure, our strategic objectives and our operational development plans to support Vermilion as a distributed energy provider, and exploration and development programs in regions with relatively low energy production as compared to consumption (i.e. Hungary).

Note 1: Short term (0 to 3 years); Medium term (3 to 6 years); Long term (6 to 50 years)

Note 2: Risk summary is based on our fiscal year 2017 environmental reporting through CDP. Fiscal year 2018 environmental reporting will be available in mid-2019.

Corporate Governance

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

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

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

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

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

Disclosure Controls and Procedures

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

As of December 31, 2018, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded and certified that our disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

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

The Chief Executive Officer and the Chief Financial Officer of Vermilion have assessed the effectiveness of Vermilion's internal control over financial reporting as defined in Rule 13a-15 under the US Securities Exchange Act of 1934 and as defined in Canada by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. The assessment was based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Chief Executive Officer and the Chief Financial Officer of Vermilion have concluded that Vermilion's internal control over financial reporting was effective as of December 31, 2018. The effectiveness of Vermilion's internal control over financial reporting as of December 31, 2018 has been audited by Deloitte LLP, as reflected in their report included in the 2018 audited annual financial statements filed with the US Securities and Exchange Commission. No changes were made to Vermilion's internal control over financial reporting during the year ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Vermilion has limited the scope of design controls and procedures ("DC&P") and internal controls over financial reporting to exclude the controls, policies, and procedures of Spartan Energy Corp (which was acquired in May of 2018) and Shell E&P Ireland Limited (which was acquired in December of 2018). The scope limitation is in accordance with section 3.3(1)(b) of NI 52-109 which allows an issuer to limit the design of DC&P and ICFR to exclude controls, policies, and procedures of a business that the issuer acquired not more than 365 days before the end of the fiscal period.

The table below presents the summary financial information of Spartan and Shell E&P Ireland Limited included in Vermilion's financial statements as at and for the year ended December 31, 2018:

($MM)	As at December 31, 2018
Non-current assets	1,556
Non-current liabilities	69
Net assets	1,422

($MM)	Year ended December 31, 2018
Revenue	243
Net earnings	45

Supplemental Table 1: Netbacks

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

	Q4 2018			2018			Q4 2017	2017
	Liquids $/bbl	Natural Gas $/mcf	Total $/boe	Liquids $/bbl	Natural Gas $/mcf	Total $/boe	Total $/boe	Total $/boe
Canada								
Sales	48.70	1.73	**33.30**	60.57	1.54	**37.81**	31.21	30.72
Royalties	(7.29)	(0.09)	**(4.57)**	(8.67)	0.02	**(4.77)**	(3.07)	(3.09)
Transportation	(2.62)	(0.17)	**(1.99)**	(2.26)	(0.16)	**(1.69)**	(1.60)	(1.61)
Operating	(13.09)	(1.35)	**(11.09)**	(11.68)	(1.32)	**(10.00)**	(7.38)	(7.47)
Operating netback	25.70	0.12	**15.65**	37.96	0.08	**21.35**	19.16	18.55
General and administration			**(0.38)**			**(0.34)**	(0.84)	(0.89)
Fund flows from operations netback			**15.27**			**21.01**	18.32	17.66
France								
Sales	84.94	1.74	**84.02**	89.68	1.74	**89.44**	75.13	67.08
Royalties	(11.86)	(0.03)	**(11.72)**	(11.64)	(0.04)	**(11.60)**	(10.11)	(7.15)
Transportation	(3.21)	—	**(3.17)**	(2.59)	—	**(2.59)**	(4.27)	(3.66)
Operating	(13.88)	—	**(13.71)**	(13.61)	—	**(13.56)**	(13.67)	(12.76)
Operating netback	55.99	1.71	**55.42**	61.84	1.70	**61.69**	47.08	43.51
General and administration			**(3.71)**			**(3.51)**	(4.06)	(3.40)
Current income taxes			**(0.86)**			**(3.74)**	(2.24)	(2.64)
Fund flows from operations netback			**50.85**			**54.44**	40.78	37.47
Netherlands								
Sales	69.95	10.95	**65.77**	74.85	9.71	**58.44**	47.41	43.24
Royalties	—	(0.11)	**(0.67)**	—	(0.19)	**(1.12)**	(0.75)	(0.69)
Operating	—	(1.42)	**(8.40)**	—	(1.58)	**(9.40)**	(8.09)	(8.49)
Operating netback	69.95	9.42	**56.70**	74.85	7.94	**47.92**	38.57	34.06
General and administration			**(0.88)**			**(0.69)**	(0.63)	(0.89)
Current income taxes			**(9.31)**			**(5.83)**	8.08	1.33
Fund flows from operations netback			**46.51**			**41.40**	46.02	34.50
Germany								
Sales	75.53	9.72	**62.74**	84.14	8.70	**61.47**	50.22	44.37
Royalties	(3.32)	(0.57)	**(3.41)**	(2.55)	(0.99)	**(4.94)**	(4.78)	(4.30)
Transportation	(9.14)	(0.41)	**(4.16)**	(9.53)	(0.48)	**(4.79)**	(3.09)	(4.01)
Operating	(24.48)	(2.84)	**(18.95)**	(22.53)	(2.50)	**(17.18)**	(16.01)	(13.03)
Operating netback	38.59	5.90	**36.22**	49.53	4.73	**34.56**	26.34	23.03
General and administration			**(6.61)**			**(5.52)**	(5.53)	(5.02)
Fund flows from operations netback			**29.61**			**29.04**	20.81	18.01
Ireland								
Sales	—	11.15	**66.91**	—	10.19	**61.12**	50.79	43.14
Transportation	—	(0.23)	**(1.40)**	—	(0.25)	**(1.53)**	(1.74)	(1.46)
Operating	—	(0.94)	**(5.64)**	—	(0.76)	**(4.58)**	(3.45)	(4.95)
Operating netback	—	9.98	**59.87**	—	9.18	**55.01**	45.60	36.73
General and administration			**(2.55)**			**(2.50)**	(0.60)	(0.65)
Fund flows from operations netback			**57.32**			**52.51**	45.00	36.08

	Q4 2018			2018			Q4 2017	2017
	Liquids	Natural Gas	Total	Liquids	Natural Gas	Total	Total	Total
	$/bbl	$/mcf	$/boe	$/bbl	$/mcf	$/boe	$/boe	$/boe
Australia								
Sales	97.19	—	**97.19**	95.11	—	**95.11**	83.32	73.99
Operating	(38.92)	—	**(38.92)**	(33.57)	—	**(33.57)**	(28.11)	(24.03)
PRRT (1)	5.98	—	**5.98**	(3.04)	—	**(3.04)**	(8.25)	(9.50)
Operating netback	64.25	—	**64.25**	58.50	—	**58.50**	46.96	40.46
General and administration			**(3.44)**			**(3.10)**	(7.37)	(3.93)
Corporate income taxes			**(0.53)**			**(4.16)**	(4.05)	(2.17)
Fund flows from operations netback			**60.28**			**51.24**	35.54	34.36
United States								
Sales	53.92	3.29	**44.85**	64.06	2.67	**52.90**	62.40	53.84
Royalties	(14.96)	(0.90)	**(12.43)**	(16.71)	(0.73)	**(13.85)**	(17.16)	(14.99)
Transportation	—	—	**—**	—	—	**—**	(0.21)	(0.14)
Operating	(8.68)	(1.48)	**(8.73)**	(8.97)	(1.39)	**(8.83)**	(5.70)	(5.95)
Operating netback	30.28	0.91	**23.69**	38.38	0.55	**30.22**	39.33	32.76
General and administration			**(4.28)**			**(8.67)**	(18.28)	(15.22)
Fund flows from operations netback			**19.41**			**21.55**	21.05	17.54
Total Company								
Sales	60.48	5.83	**48.90**	71.70	5.45	**52.95**	47.49	44.41
Realized hedging (loss) gain	(1.84)	(0.74)	**(3.03)**	(3.72)	(0.55)	**(3.51)**	(1.12)	0.19
Royalties	(7.89)	(0.14)	**(4.70)**	(8.67)	(0.10)	**(4.80)**	(3.52)	(3.01)
Transportation	(2.52)	(0.16)	**(1.81)**	(2.22)	(0.17)	**(1.64)**	(1.79)	(1.76)
Operating	(15.26)	(1.36)	**(12.04)**	(14.40)	(1.31)	**(11.26)**	(9.76)	(9.79)
PRRT (1)	0.47	—	**0.26**	(0.29)	—	**(0.15)**	(0.53)	(0.80)
Operating netback	33.44	3.43	**27.58**	42.40	3.32	**31.59**	30.77	29.24
General and administration			**(1.37)**			**(1.64)**	(2.39)	(2.20)
Interest expense			**(2.23)**			**(2.30)**	(2.05)	(2.32)
Realized foreign exchange loss			**0.63**			**0.01**	0.43	0.09
Other income			**0.03**			**0.03**	0.02	0.03
Corporate income taxes			**(0.85)**			**(1.22)**	0.35	(0.50)
Fund flows from operations netback			**23.79**			**26.47**	27.13	24.34

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

Supplemental Table 2: Hedges

The prices in these tables may represent the weighted averages for several contracts. The weighted average price for the portfolio of options listed below may not have the same payoff profile as the individual contracts. As such, the presentation of the weighted average prices is purely for indicative purposes.

The following tables outline Vermilion's outstanding risk management positions as at December 31, 2018:

Crude Oil	Period	Exercise date [1]	Currency	Bought Put Volume (bbl/d)	Weighted Average Bought Put Price / bbl	Sold Call Volume (bbl/d)	Weighted Average Sold Call Price / bbl	Sold Put Volume (bbl/d)	Weighted Average Sold Put Price / bbl	Swap Volume (bbl/d)	Weighted Average Swap Price / bbl
Dated Brent											
3-Way Collar	Sep 2018 - Jun 2019		CAD	2,500	91.20	2,500	98.63	2,500	76.00	—	—
Swap	Jan 2019 - Dec 2019		CAD	—	—	—	—	—	—	1,350	91.76
3-Way Collar	Aug 2018 - Jun 2019		USD	500	66.92	500	80.00	500	55.00	—	—
3-Way Collar	Jan 2019 - Dec 2019		USD	500	70.00	500	80.00	500	60.00	—	—
Swap	Apr 2018 - Mar 2019		USD	—	—	—	—	—	—	750	61.33
Swap	Jul 2018 - Jun 2019		USD	—	—	—	—	—	—	1,500	68.52
Swap	Jan 2019 - Dec 2019		USD	—	—	—	—	—	—	2,250	73.17
WTI											
Swap	Jan 2019 - Dec 2019		CAD	—	—	—	—	—	—	1,050	81.41
3-Way Collar	Jan 2019 - Dec 2019		USD	250	70.00	250	80.25	250	60.00	—	—
Swap	Apr 2018 - Mar 2019		USD	—	—	—	—	—	—	250	54.00

North American Gas	Period	Exercise date [1]	Currency	Bought Put Volume (mcf/d)	Weighted Average Bought Put Price / mcf	Sold Call Volume (mcf/d)	Weighted Average Sold Call Price / mcf	Sold Put Volume (mcf/d)	Weighted Average Sold Put Price /mcf	Swap Volume (mcf/d)	Weighted Average Swap Price / mcf
AECO											
Swap	Dec 2018 - Mar 2019		CAD	—	—	—	—	—	—	2,500	2.41
AECO Basis (AECO less NYMEX Henry Hub)											
Swap	Jan 2019 - Jun 2020		USD	—	—	—	—	—	—	2,500	(0.93)
AECO Basis (AECO less Chicago NGI)											
Swap	Nov 2018 - Mar 2019		USD	—	—	—	—	—	—	5,000	(1.46)
NYMEX Henry Hub											
Swap	Jan 2019 - Mar 2019		USD	—	—	—	—	—	—	5,000	4.00
Chicago NGI											
Swap	Dec 2018 - Mar 2019		USD	—	—	—	—	—	—	5,000	4.40
SOCAL Border											
Swap [2]	Jan 2019		USD	—	—	—	—	—	—	10,000	5.50
Swap [2]	Feb 2019		USD	—	—	—	—	—	—	10,000	4.39
Swap [2]	Mar 2019		USD	—	—	—	—	—	—	10,000	3.36

(1) The sold swaption instrument allows the counterparty, at the specified date, to enter into a derivative instrument contract with Vermilion at the above detailed terms.
(2) These swaps hedge a physical sales agreement to sell Alberta natural gas production at SOCAL Border pricing less a fixed differential.

European Gas	Period	Exercise date [1]	Currency	Bought Put Volume (mcf/d)	Weighted Average Bought Put Price / mcf	Sold Call Volume (mcf/d)	Weighted Average Sold Call Price / mcf	Sold Put Volume (mcf/d)	Weighted Average Sold Put Price /mcf	Swap Volume (mcf/d)	Weighted Average Swap Price / mcf
NBP											
3-Way Collar	Jan 2019 - Dec 2019		EUR	17,197	4.97	17,197	5.65	17,197	3.79	—	—
3-Way Collar	Jan 2019 - Dec 2020		EUR	7,370	4.96	7,370	5.76	7,370	3.74	—	—
3-Way Collar	Jan 2020 - Dec 2020		EUR	19,654	5.10	19,654	5.92	19,654	4.01	—	—
Collar	Oct 2018 - Mar 2019		EUR	3,685	6.40	2,457	7.62	—	—	—	—
Call	Oct 2018 - Mar 2019		EUR	—	—	12,327	6.28	—	—	—	—
Swap	Oct 2018 - Mar 2019		EUR	—	—	—	—	—	—	4,913	7.92
Swaption	Jul 2019 - Jun 2021	June 28, 2019	EUR	—	—	—	—	—	—	9,827	5.64
Swaption	Oct 2019 - Mar 2020	June 28, 2019	EUR	—	—	—	—	—	—	7,370	5.86
Swaption	Oct 2020 - Mar 2021	June 28, 2019	EUR	—	—	—	—	—	—	7,370	5.86
Swaption	Oct 2021 - Mar 2022	June 28, 2019	EUR	—	—	—	—	—	—	7,370	5.86
NBP Basis (NBP less NYMEX HH)											
Collar	Jan 2019 - Sep 2020		USD	7,500	2.07	7,500	4.00	—	—	—	—
TTF											
3-Way Collar	Oct 2017 - Dec 2019		EUR	7,370	4.59	7,370	5.42	7,370	2.93	—	—
3-Way Collar	Jan 2018 - Dec 2019		EUR	3,685	4.74	3,685	5.52	3,685	3.13	—	—
3-Way Collar	Jan 2019 - Dec 2019		EUR	12,284	5.05	12,284	5.72	12,284	3.69	—	—
3-Way Collar	Jan 2020 - Dec 2020		EUR	7,370	5.37	7,370	6.25	7,370	3.81	—	—
Swap	Oct 2017 - Dec 2019		EUR	—	—	—	—	—	—	7,370	4.87
Swap	Jan 2018 - Dec 2019		EUR	—	—	—	—	—	—	1,228	5.00
Swap	Jul 2018 - Dec 2019		EUR	—	—	—	—	—	—	4,913	4.98
Swap	Jan 2019 - Dec 2019		EUR	—	—	—	—	—	—	2,457	4.92

Cross Currency Interest Rate		Receive Notional Amount (USD)	Rate (LIBOR +)	Pay Notional Amount (CAD)	Rate (CDOR +)
Swap	Jan 2019	1,018,563,000	1.70%	1,354,900,000	1.02%

(1) The sold swaption instrument allows the counterparty, at the specified date, to enter into a swap with Vermilion at the above detailed terms.

Supplemental Table 3: Capital Expenditures and Acquisitions

By classification ($M)	Q4 2018	Q3 2018	Q4 2017	2018	2017
Drilling and development	**160,359**	142,116	61,911	**503,842**	290,593
Exploration and evaluation	**3,221**	4,069	12,392	**14,372**	29,856
Capital expenditures	**163,580**	146,185	74,303	**518,214**	320,449
Acquisitions	**(31,314)**	193,677	3,048	**276,308**	27,637
Shares issued for acquisition	**—**	—	—	**1,235,221**	—
Contingent consideration	**2**	—	—	**2**	—
Long-term debt net of working capital assumed	**34,005**	4,496	—	**247,898**	—
Acquisitions	**2,689**	198,173	3,048	**1,759,425**	27,637

By category ($M)	Q4 2018	Q3 2018	Q4 2017	2018	2017
Drilling, completion, new well equip and tie-in, workovers and recompletions	**151,511**	118,317	45,533	**434,875**	225,668
Production equipment and facilities	**9,166**	26,964	18,109	**62,496**	59,629
Seismic, studies, land and other	**2,903**	904	10,661	**20,843**	35,152
Capital expenditures	**163,580**	146,185	74,303	**518,214**	320,449
Acquisitions	**2,689**	198,173	3,048	**1,759,425**	27,637
Total capital expenditures and acquisitions	**166,269**	344,358	77,351	**2,277,639**	348,086

Capital expenditures by country ($M)	Q4 2018	Q3 2018	Q4 2017	2018	2017
Canada	**90,211**	89,837	26,865	**277,857**	148,667
France	**17,008**	15,779	20,027	**79,758**	73,381
Netherlands	**2,454**	5,056	12,300	**17,483**	31,575
Germany	**4,580**	6,497	5,279	**15,806**	9,531
Ireland	**140**	(50)	327	**224**	551
Australia	**43,760**	16,061	7,192	**75,638**	29,942
United States	**2,881**	11,386	1,018	**40,837**	19,074
Corporate	**2,546**	1,619	1,295	**10,611**	7,728
Total capital expenditures	**163,580**	146,185	74,303	**518,214**	320,449

Acquisitions by country ($M)	Q4 2018	Q3 2018	Q4 2017	2018	2017
Canada	**12,233**	6,146	788	**1,573,964**	22,011
Netherlands	**(7,860)**	2,874	(38)	**(2,087)**	(24)
Germany	**706**	959	—	**1,665**	—
Ireland	**(5,572)**	—	—	**(5,572)**	—
United States	**3,674**	187,987	91	**191,740**	3,403
Corporate	**(492)**	207	2,207	**(285)**	2,247
Total acquisitions	**2,689**	198,173	3,048	**1,759,425**	27,637

In 2018, included in cash expenditures on acquisitions of $276.3 million is: $257.8 million net paid to vendors in relation to business combinations ($339.9 million paid net of $82.1 million cash acquired); $9.9 million in asset improvements incurred subsequent to acquisitions for compliance with safety, environmental, and Vermilion's operating standards; $7.0 million paid to acquire land; and $1.6 million relating to the carry component of farm-in arrangements.

Supplemental Table 4: Production

	Q4/18	Q3/18	Q2/18	Q1/18	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16	Q2/16	Q1/16
Canada												
Crude oil & condensate (bbls/d)	**29,557**	28,477	17,009	9,272	9,703	9,288	9,205	7,987	7,945	8,984	9,453	10,317
NGLs (bbls/d)	**6,816**	6,126	5,589	5,106	5,235	4,891	3,745	2,670	2,444	2,448	2,687	2,633
Natural gas (mmcf/d)	**146.65**	136.77	127.32	106.21	107.91	103.92	93.68	85.74	75.12	77.62	87.44	97.16
Total (boe/d)	**60,814**	57,397	43,817	32,078	32,923	31,499	28,563	24,947	22,910	24,368	26,713	29,141
% of consolidated	**60%**	59%	55%	46%	45%	46%	43%	38%	38%	37%	42%	44%
France												
Crude oil (bbls/d)	**11,317**	11,407	11,683	11,037	11,215	10,918	11,368	10,834	11,220	11,827	12,326	12,220
Natural gas (mmcf/d)	**0.82**	—	—	—	—	—	—	0.01	0.38	0.42	0.54	0.44
Total (boe/d)	**11,454**	11,407	11,683	11,037	11,215	10,918	11,368	10,836	11,283	11,897	12,416	12,293
% of consolidated	**11%**	12%	14%	16%	15%	16%	17%	17%	19%	19%	19%	19%
Netherlands												
Condensate (bbls/d)	**112**	84	87	77	105	74	104	76	57	86	96	114
Natural gas (mmcf/d)	**51.82**	44.37	43.49	44.79	55.66	34.90	31.58	39.92	41.15	47.62	49.18	53.40
Total (boe/d)	**8,749**	7,479	7,335	7,541	9,381	5,890	5,368	6,729	6,915	8,023	8,293	9,015
% of consolidated	**9%**	8%	9%	11%	13%	9%	8%	10%	11%	13%	13%	14%
Germany												
Crude oil (bbls/d)	**913**	1,019	1,008	1,078	1,148	1,054	1,047	989	—	—	—	—
Natural gas (mmcf/d)	**16.94**	14.88	14.63	16.19	18.19	20.12	19.86	19.39	14.80	14.52	14.31	15.96
Total (boe/d)	**3,736**	3,498	3,447	3,777	4,180	4,407	4,357	4,220	2,467	2,420	2,385	2,660
% of consolidated	**4%**	4%	4%	5%	6%	7%	6%	7%	4%	4%	4%	4%
Ireland												
Natural gas (mmcf/d)	**52.03**	51.38	56.56	60.87	56.23	49.04	63.81	64.82	62.92	59.28	47.26	33.90
Total (boe/d)	**8,672**	8,563	9,426	10,144	9,372	8,173	10,634	10,803	10,486	9,879	7,877	5,650
% of consolidated	**9%**	9%	12%	14%	13%	12%	16%	17%	17%	16%	12%	9%
Australia												
Crude oil (bbls/d)	**4,174**	4,704	4,132	4,971	4,993	5,473	6,054	6,581	6,388	6,562	6,083	6,180
% of consolidated	**4%**	5%	5%	7%	7%	8%	9%	10%	10%	10%	9%	9%
United States												
Crude oil (bbls/d)	**1,605**	1,461	655	574	667	880	747	365	362	383	458	368
NGLs (bbls/d)	**998**	714	62	20	43	56	76	24	23	30	26	39
Natural gas (mmcf/d)	**5.65**	4.82	0.40	0.15	0.29	0.64	0.44	0.20	0.18	0.20	0.20	0.26
Total (boe/d)	**3,545**	2,979	784	618	758	1,043	896	422	414	447	518	450
% of consolidated	**3%**	3%	1%	1%	1%	2%	1%	1%	1%	1%	1%	1%
Corporate												
Natural gas (mmcf/d)	**2.86**	1.17	—	—	—	—	—	—	—	—	—	—
Total (boe/d)	**477**	195	—	—	—	—	—	—	—	—	—	—
% of consolidated	**—**	—%	—	—	—	—	—	—	—	—	—	—
Consolidated												
Liquids (bbls/d)	**55,493**	53,991	40,225	32,134	33,109	32,634	32,346	29,526	28,439	30,320	31,129	31,871
% of consolidated	**55%**	56%	50%	46%	45%	48%	48%	46%	47%	48%	48%	49%
Natural gas (mmcf/d)	**276.77**	253.38	242.40	228.20	238.28	208.62	209.36	210.07	194.54	199.65	198.93	201.11
% of consolidated	**45%**	44%	50%	54%	55%	52%	52%	54%	53%	52%	52%	51%
Total (boe/d)	**101,621**	96,222	80,625	70,167	72,821	67,403	67,240	64,537	60,863	63,596	64,285	65,389

	2018	2017	2016	2015	2014	2013
Canada						
Crude oil & condensate (bbls/d)	**21,154**	9,051	9,171	11,357	12,491	8,387
NGLs (bbls/d)	**5,914**	4,144	2,552	2,301	1,233	1,666
Natural gas (mmcf/d)	**129.37**	97.89	84.29	71.65	55.67	42.39
Total (boe/d)	**48,630**	29,510	25,771	25,598	23,001	17,117
% of consolidated	**56%**	45%	40%	46%	47%	41%
France						
Crude oil (bbls/d)	**11,362**	11,084	11,896	12,267	11,011	10,873
Natural gas (mmcf/d)	**0.21**	—	0.44	0.97	—	3.40
Total (boe/d)	**11,396**	11,085	11,970	12,429	11,011	11,440
% of consolidated	**13%**	16%	19%	23%	22%	28%
Netherlands						
Condensate (bbls/d)	**90**	90	88	99	77	64
Natural gas (mmcf/d)	**46.13**	40.54	47.82	44.76	38.20	35.42
Total (boe/d)	**7,779**	6,847	8,058	7,559	6,443	5,967
% of consolidated	**9%**	10%	13%	14%	13%	15%
Germany						
Crude oil (bbls/d)	**1,004**	1,060	—	—	—	—
Natural gas (mmcf/d)	**15.66**	19.39	14.90	15.78	14.99	—
Total (boe/d)	**3,614**	4,291	2,483	2,630	2,498	—
% of consolidated	**4%**	6%	4%	5%	5%	—
Ireland						
Natural gas (mmcf/d)	**55.17**	58.43	50.89	0.03	—	—
Total (boe/d)	**9,195**	9,737	8,482	5	—	—
% of consolidated	**11%**	14%	13%	—	—	—
Australia						
Crude oil (bbls/d)	**4,494**	5,770	6,304	6,454	6,571	6,481
% of consolidated	**5%**	8%	10%	12%	13%	16%
United States						
Crude oil (bbls/d)	**1,078**	666	393	231	49	—
NGLs (bbls/d)	**452**	50	29	7	—	—
Natural gas (mmcf/d)	**2.78**	0.39	0.21	0.05	—	—
Total (boe/d)	**1,992**	781	457	247	49	—
% of consolidated	**2%**	1%	1%	—	—	—
Corporate						
Natural gas (mmcf/d)	**1.02**	—	—	—	—	—
Total (boe/d)	**169**	—	—	—	—	—
% of consolidated	**—**	—	—	—	—	—
Consolidated						
Liquids (bbls/d)	**45,548**	31,915	30,433	32,716	31,432	27,471
% of consolidated	**52%**	47%	48%	60%	63%	67%
Natural gas (mmcf/d)	**250.33**	216.64	198.55	133.24	108.85	81.21
% of consolidated	**48%**	53%	52%	40%	37%	33%
Total (boe/d)	**87,270**	68,021	63,526	54,922	49,573	41,005

Supplemental Table 5: Segmented Financial Results

	Three Months Ended December 31, 2018								
($M)	Canada	France	Netherlands	Germany	Ireland	Australia	USA	Corporate	Total
Drilling and development	90,211	16,870	2,292	3,087	140	43,760	2,881	1,118	160,359
Exploration and evaluation	—	138	162	1,493	—	—	—	1,428	3,221
Crude oil and condensate sales	146,947	85,758	721	6,742	—	39,351	10,452	—	289,971
NGL sales	16,010	—	—	—	—	—	2,462	—	18,472
Natural gas sales	23,351	131	52,216	15,155	53,385	—	1,711	2,547	148,496
Royalties	(25,584)	(11,976)	(537)	(1,190)	—	—	(4,053)	(534)	(43,874)
Revenue from external customers	160,724	73,913	52,400	20,707	53,385	39,351	10,572	2,013	413,065
Transportation	(11,129)	(3,242)	—	(1,452)	(1,115)	—	—	—	(16,938)
Operating	(62,064)	(14,015)	(6,765)	(6,615)	(4,497)	(15,757)	(2,848)	91	(112,470)
General and administration	(2,150)	(3,792)	(709)	(2,308)	(2,037)	(1,391)	(1,396)	969	(12,814)
PRRT	—	—	—	—	—	2,422	—	—	2,422
Corporate income taxes	—	(884)	(7,492)	—	—	(216)	—	646	(7,946)
Interest expense	—	—	—	—	—	—	—	(20,827)	(20,827)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(28,319)	(28,319)
Realized foreign exchange gain	—	—	—	—	—	—	—	5,894	5,894
Realized other income	—	—	—	—	—	—	—	275	275
Fund flows from operations	**85,381**	**51,980**	**37,434**	**10,332**	**45,736**	**24,409**	**6,328**	**(39,258)**	**222,342**

	Year Ended December 31, 2018								
($M)	Canada	France	Netherlands	Germany	Ireland	Australia	USA	Corporate	Total
Total assets	3,060,291	918,398	277,348	284,063	709,585	263,739	407,323	349,924	6,270,671
Drilling and development	277,857	79,451	17,963	10,863	224	75,638	40,837	1,009	503,842
Exploration and evaluation	—	307	(480)	4,943	—	—	—	9,602	14,372
Crude oil and condensate sales	541,844	360,471	2,462	32,704	—	150,733	31,142	—	1,119,356
NGL sales	56,554	—	—	—	—	—	4,622	—	61,176
Natural gas sales	72,774	131	163,454	49,745	205,150	—	2,701	3,630	497,585
Royalties	(84,696)	(46,781)	(3,181)	(6,626)	—	—	(10,070)	(813)	(152,167)
Revenue from external customers	586,476	313,821	162,735	75,823	205,150	150,733	28,395	2,817	1,525,950
Transportation	(29,912)	(10,426)	—	(6,420)	(5,129)	—	—	—	(51,887)
Operating	(177,499)	(54,690)	(26,681)	(23,048)	(15,366)	(53,199)	(6,421)	(110)	(357,014)
General and administration	(6,057)	(14,170)	(1,947)	(7,401)	(8,386)	(4,918)	(6,306)	(2,744)	(51,929)
PRRT	—	—	—	—	—	(4,824)	—	—	(4,824)
Corporate income taxes	—	(15,084)	(16,561)	—	—	(6,595)	—	(513)	(38,753)
Interest expense	—	—	—	—	—	—	—	(72,759)	(72,759)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(111,258)	(111,258)
Realized foreign exchange gain	—	—	—	—	—	—	—	243	243
Realized other income	—	—	—	—	—	—	—	883	883
Fund flows from operations	**373,008**	**219,451**	**117,546**	**38,954**	**176,269**	**81,197**	**15,668**	**(183,441)**	**838,652**

Non-GAAP Financial Measures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

($M)	Q4 2018	Q3 2018	Q4 2017	2018	2017
Dividends declared	**105,310**	105,192	78,653	**388,111**	311,397
Shares issued for the Dividend Reinvestment Plan	**(5,115)**	(4,320)	(21,817)	**(49,051)**	(110,493)
Net dividends	**100,195**	100,872	56,836	**339,060**	200,904
Drilling and development	**160,359**	142,116	61,911	**503,842**	290,593
Exploration and evaluation	**3,221**	4,069	12,392	**14,372**	29,856
Asset retirement obligations settled	**6,562**	2,986	3,216	**15,765**	9,334
Payout	**270,337**	250,043	134,355	**873,039**	530,687
% of fund flows from operations	**122%**	96%	74%	**104%**	88%

('000s of shares)	Q4 2018	Q3 2018	Q4 2017
Shares outstanding	**152,704**	152,497	122,119
Potential shares issuable pursuant to the VIP	**3,469**	3,250	3,021
Diluted shares outstanding	**156,173**	155,747	125,140

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

($M)	2018	2017
Net earnings	**271,650**	62,258
Taxes	**83,048**	62,224
Interest expense	**72,759**	57,313
EBIT	**427,457**	181,795
Average capital employed	**4,659,566**	3,703,991
Return on capital employed	**9%**	5%

Management's Report to Shareholders

Management's Responsibility for Financial Statements

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

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

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

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Management under the supervision and with the participation of the principal executive officer and principle financial officer conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the criteria established in *"Internal Control - Integrated Framework (2013)"* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has assessed the effectiveness of Vermilion's internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the US Securities Exchange Act of 1934 and as defined in Canada by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Management concluded that Vermilion's internal control over financial reporting was effective as of December 31, 2018. Management has limited the scope of design controls and procedures ("DC&P") and internal controls over financial reporting to exclude the controls, policies, and procedures of Spartan Energy Corp (which was acquired in May of 2018) and Shell E&P Ireland Limited (which was acquired in December of 2018). Total assets and revenues excluded from management's assessment of internal control over financial reporting represents 23% and 14%, respectively, of the related Consolidated Financial Statement amounts as at and for the year ended December 31, 2018.

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

The effectiveness of Vermilion's internal control over financial reporting as of December 31, 2018 has been audited by Deloitte LLP, the Company's Independent Registered Public Accounting Firm, who also audited the Company's consolidated financial statements for the year ended December 31, 2018.

("Anthony Marino")

Anthony Marino
President & Chief Executive Officer
February 27, 2019

("Lars Glemser")

Lars Glemser
Vice President & Chief Financial Officer

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Vermilion Energy Inc. and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated February 27, 2019, expressed an unqualified opinion on those financial statements.

As described in Management's Report to Shareholders, management excluded from its assessment the internal control over financial reporting of Spartan Energy Inc. and Shell E&P Ireland Limited, which were acquired in 2018, and whose financial statements constitute 23% and 14% of total assets and revenues, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2018. Accordingly, our audit did not include the internal control over financial reporting at Spartan Energy Inc. and Shell E&P Ireland Limited.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Canada
February 27, 2019

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Vermilion Energy Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of net earnings and comprehensive income, consolidated statements of cash flows, and consolidated statements of changes in shareholders' equity for the years then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Canada
February 27, 2019

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

Consolidated Financial Statements

Consolidated Balance Sheet

thousands of Canadian dollars

	Note	December 31, 2018	December 31, 2017
Assets			
Current			
Cash and cash equivalents	19	**26,809**	46,561
Accounts receivable		**260,322**	165,760
Crude oil inventory		**27,751**	17,105
Derivative instruments	9	**95,667**	17,988
Prepaid expenses		**19,328**	14,432
Total current assets		**429,877**	261,846
Derivative instruments	9	**1,215**	2,552
Deferred taxes	11	**219,411**	80,324
Exploration and evaluation assets	7	**303,295**	292,278
Capital assets	6	**5,316,873**	3,337,965
Total assets		**6,270,671**	3,974,965
Liabilities			
Current			
Accounts payable and accrued liabilities		**449,651**	219,084
Dividends payable	13	**35,122**	26,256
Derivative instruments	9	**41,016**	78,905
Income taxes payable		**37,410**	39,061
Total current liabilities		**563,199**	363,306
Derivative instruments	9	**17,527**	12,348
Long-term debt	12	**1,796,207**	1,270,330
Lease obligations	10	**108,189**	15,807
Asset retirement obligations	8	**650,164**	517,180
Deferred taxes	11	**318,134**	253,108
Total liabilities		**3,453,420**	2,432,079
Shareholders' equity			
Shareholders' capital	13	**4,008,828**	2,650,706
Contributed surplus		**78,478**	84,354
Accumulated other comprehensive income		**118,182**	71,829
Deficit		**(1,388,237)**	(1,264,003)
Total shareholders' equity		**2,817,251**	1,542,886
Total liabilities and shareholders' equity		**6,270,671**	3,974,965

Approved by the Board

(Signed "Catherine L. Williams")

Catherine L. Williams, Director

(Signed "Anthony Marino")

Anthony Marino, Director

Consolidated Statements of Net Earnings and Comprehensive Income

thousands of Canadian dollars, except share and per share amounts

		Year Ended	
	Note	Dec 31, 2018	Dec 31, 2017
Revenue			
Petroleum and natural gas sales		**1,678,117**	1,098,838
Royalties		**(152,167)**	(74,476)
Petroleum and natural gas revenue		**1,525,950**	1,024,362
Expenses			
Operating	19	**357,014**	242,267
Transportation		**51,887**	43,448
Equity based compensation	15	**60,746**	61,579
Loss (gain) on derivative instruments	9	**1,932**	(3,659)
Interest expense		**72,759**	57,313
General and administration	19	**51,929**	54,373
Foreign exchange loss (gain)		**63,000**	(74,058)
Other income		**(82)**	(37)
Accretion	8	**31,219**	26,971
Depletion and depreciation	6, 7	**609,056**	491,683
Gain on business combinations	5	**(128,208)**	—
		1,171,252	899,880
Earnings before income taxes		**354,698**	124,482
Taxes	11		
Deferred		**39,471**	30,117
Current		**43,577**	32,107
		83,048	62,224
Net earnings		**271,650**	62,258
Other comprehensive income			
Currency translation adjustments		**46,353**	41,490
Comprehensive income		**318,003**	103,748
Net earnings per share	16		
Basic		**1.93**	0.52
Diluted		**1.91**	0.51
Weighted average shares outstanding ('000s)	16		
Basic		**140,619**	120,582
Diluted		**142,335**	122,408

Consolidated Statements of Cash Flows

thousands of Canadian dollars

		Year Ended	
	Note	Dec 31, 2018	Dec 31, 2017
Operating			
Net earnings		**271,650**	62,258
Adjustments:			
Accretion	8	**31,219**	26,971
Depletion and depreciation	6, 7	**609,056**	491,683
Gain on business combinations	5	**(128,208)**	—
Unrealized (gain) loss on derivative instruments	9	**(109,326)**	1,062
Equity based compensation	15	**60,746**	61,579
Unrealized foreign exchange loss (gain)		**63,243**	(71,742)
Unrealized other expense		**801**	637
Deferred taxes	11	**39,471**	30,117
Asset retirement obligations settled	8	**(15,765)**	(9,334)
Changes in non-cash operating working capital	19	**(6,876)**	665
Cash flows from operating activities		**816,011**	593,896
Investing			
Drilling and development	6	**(503,842)**	(290,593)
Exploration and evaluation	7	**(14,372)**	(29,856)
Acquisitions	5	**(276,308)**	(27,637)
Changes in non-cash investing working capital	19	**55,491**	407
Cash flows used in investing activities		**(739,031)**	(347,679)
Financing			
Borrowings (repayments) on the revolving credit facility	12	**251,155**	(450,646)
Issuance of senior unsecured notes	12	**—**	391,906
Payments on lease obligations	10	**(18,884)**	(4,874)
Cash dividends	13	**(330,194)**	(200,074)
Cash flows used in financing activities		**(97,923)**	(263,688)
Foreign exchange gain on cash held in foreign currencies		**1,191**	1,257
Net change in cash and cash equivalents		**(19,752)**	(16,214)
Cash and cash equivalents, beginning of year		**46,561**	62,775
Cash and cash equivalents, end of year	19	**26,809**	46,561
Supplementary information for cash flows from operating activities			
Interest paid		**70,049**	49,721
Income taxes paid		**45,228**	29,265

Consolidated Statements of Changes in Shareholders' Equity

thousands of Canadian dollars

	Year Ended Dec 31, 2018	Dec 31, 2017
Shareholders' capital		
Balance, beginning of year	**2,650,706**	2,452,722
Shares issued for acquisition	**1,234,676**	—
Shares issued for the Dividend Reinvestment Plan	**49,051**	110,493
Vesting of equity based awards	**54,057**	69,743
Equity based compensation	**12,565**	9,270
Share-settled dividends on vested equity based awards	**7,773**	8,478
Balance, end of year	**4,008,828**	2,650,706
Contributed surplus		
Balance, beginning of year	**84,354**	101,788
Equity based compensation	**48,181**	52,309
Vesting of equity based awards	**(54,057)**	(69,743)
Balance, end of year	**78,478**	84,354
Accumulated other comprehensive income		
Balance, beginning of year	**71,829**	30,339
Currency translation adjustments	**46,353**	41,490
Balance, end of year	**118,182**	71,829
Deficit		
Balance, beginning of year	**(1,264,003)**	(1,006,386)
Net earnings	**271,650**	62,258
Dividends declared	**(388,111)**	(311,397)
Share-settled dividends on vested equity based awards	**(7,773)**	(8,478)
Balance, end of year	**(1,388,237)**	(1,264,003)
Total shareholders' equity	**2,817,251**	1,542,886

Please refer to Note 13 (Shareholders' capital) and Note 15 (Equity based compensation) for additional information.

Description of equity reserves

Shareholders' capital

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

Contributed surplus

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

Accumulated other comprehensive income

Represents currency translation adjustments resulting from translating the financial statements 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.

Deficit

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

1. Basis of presentation

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

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

These consolidated financial statements were approved and authorized for issuance by Vermilion’s Board of Directors on February 27, 2019.

2. Significant accounting policies

Accounting framework

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

Principles of consolidation

The consolidated financial statements include the accounts of Vermilion Energy Inc. and its subsidiaries. Vermilion’s subsidiaries include entities in each of the jurisdictions that Vermilion operates as described in Note 4 including: Canada, France, Netherlands, Germany, Ireland (through an Irish Branch of a Cayman Islands incorporated company), Australia, the United States, Hungary, Slovakia, and Croatia. Vermilion Energy Inc. directly or indirectly through holding companies owns all of the voting securities of each material subsidiary. Transactions between Vermilion Energy Inc. and its subsidiaries have been eliminated.

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

Exploration and evaluation assets

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

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

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

Capital assets

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

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

Depletion and depreciation

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

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

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

Impairment of capital assets and exploration and evaluation assets

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

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

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

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

Lease obligations and right-of-use assets

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

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

Cash and cash equivalents

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

Crude oil inventory

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

Asset retirement obligations

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

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

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

Revenue recognition

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

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

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

Financial instruments

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

- Fair value through profit or loss: Financial instruments under this classification include cash and cash equivalents and derivative assets and liabilities.
- Amortized cost: Financial instruments under this classification include accounts receivable, accounts payable and accrued liabilities, dividends payable, lease obligations, and long-term debt.

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

Equity based compensation

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

Vermilion's long-term share-based compensation plans consist of the Vermilion Incentive Plan ("VIP") and a security-based compensation arrangement ("Five-Year Compensation Arrangement"). Equity-settled awards issued under the VIP vest over a period of one to three years while awards issued under the Five-Year Compensation Arrangement vest in the fifth year following the grant date. Awards under both plans are adjusted upon vesting by a performance factor determined by the Company's Board of Directors. Equity based compensation expense for both plans is recognized over the vesting period with a corresponding adjustment to contributed surplus. The expense recognized is based on the grant date fair value of the awards, an estimate of the performance factor that will be achieved, and an estimate of forfeiture rates based on historical vesting data. Dividends notionally accrue to the awards and are excluded in the determination of grant date fair values. Upon vesting, the amount recognized in contributed surplus is reclassified to shareholders' capital.

The grant date fair value of the equity-settled awards issued under the VIP and the Five-Year Compensation Arrangement and the grant date fair value of Vermilion common shares issued under the Company's bonus and employee share savings plans are determined as the closing price of Vermilion's common shares on the Toronto Stock Exchange on the grant date.

Per share amounts

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

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

Foreign currency translation

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

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

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

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

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

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

Income taxes

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

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

Business combinations

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

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

Segmented information

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

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

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

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

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

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

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

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

The recognition and measurement of deferred tax assets and liabilities:

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

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

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

3. Changes in accounting pronouncements

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

IFRS 15 "Revenue from contracts with customers"

On January 1, 2018, Vermilion adopted IFRS 15 "*Revenue from contracts with customers*". IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized.

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

IFRS 15 requires additional disclosure relating to the disaggregation of revenue - this additional disclosure is included in Note 4 (Segmented Information).

IFRS 16 "Leases"

Vermilion has elected to early adopt IFRS 16 effective January 1, 2018. IFRS 16 introduces a single lease accounting model for lessees which requires a right-of-use asset and lease liability to be recognized on the balance sheet for contracts that are, or contain, a lease.

Vermilion adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as a $97.1 million increase to right-of-use assets (included in "Capital assets") with a corresponding increase to lease obligations (the non-current portion of $86.1 million recorded in "lease obligations" and the current $11.0 million portion recorded in "Accounts payable and accrued liabilities"). The right-of-use assets recognized were measured at amounts equal to the lease obligations. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was approximately 5.4%. The right-of-use assets and lease obligations recognized largely relate to the Company's head office lease in Calgary and long-term leases for oil storage facilities in France.

The adoption of IFRS 16 included the following elections:

- Vermilion elected to retain the classification of contracts previously identified as leases under IAS 17 and IFRIC 4.
- Vermilion elected to use hindsight in determining lease term.
- Vermilion elected to not apply lease accounting to certain leases for which the lease term ends within 12 months of the date of initial application.

As at December 31, 2017, Vermilion disclosed operating lease commitments of $40.2 million, which would have resulted in a lease obligation of $34.3 million when discounted at the weighted average incremental borrowing rate at adoption of IFRS 16 of 5.4%. The total current and non-current lease liability recognized on January 1, 2018 of $97.1 million represented an increase of $62.8 million compared to the disclosed operating lease commitments due the application of IFRS 16 in determining lease terms.

4. Segmented information

Vermilion has three major customers within the France, Netherlands, and Ireland operating segments that each comprise in excess of 10% of Vermilion's consolidated revenues. Substantially all sales in the France, Netherlands, and Ireland operating segments for the years ended December 31, 2018 and 2017 were to one customer in each respective segment.

	Year Ended December 31, 2018								
($M)	Canada	France	Netherlands	Germany	Ireland	Australia	USA	Corporate	Total
Total assets	3,060,291	918,398	277,348	284,063	709,585	263,739	407,323	349,924	6,270,671
Drilling and development	277,857	79,451	17,963	10,863	224	75,638	40,837	1,009	503,842
Exploration and evaluation	—	307	(480)	4,943	—	—	—	9,602	14,372
Crude oil and condensate sales	541,844	360,471	2,462	32,704	—	150,733	31,142	—	1,119,356
NGL sales	56,554	—	—	—	—	—	4,622	—	61,176
Natural gas sales	72,774	131	163,454	49,745	205,150	—	2,701	3,630	497,585
Royalties	(84,696)	(46,781)	(3,181)	(6,626)	—	—	(10,070)	(813)	(152,167)
Revenue from external customers	586,476	313,821	162,735	75,823	205,150	150,733	28,395	2,817	1,525,950
Transportation	(29,912)	(10,426)	—	(6,420)	(5,129)	—	—	—	(51,887)
Operating	(177,499)	(54,690)	(26,681)	(23,048)	(15,366)	(53,199)	(6,421)	(110)	(357,014)
General and administration	(6,057)	(14,170)	(1,947)	(7,401)	(8,386)	(4,918)	(6,306)	(2,744)	(51,929)
PRRT	—	—	—	—	—	(4,824)	—	—	(4,824)
Corporate income taxes	—	(15,084)	(16,561)	—	—	(6,595)	—	(513)	(38,753)
Interest expense	—	—	—	—	—	—	—	(72,759)	(72,759)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(111,258)	(111,258)
Realized foreign exchange gain	—	—	—	—	—	—	—	243	243
Realized other income	—	—	—	—	—	—	—	883	883
Fund flows from operations	**373,008**	**219,451**	**117,546**	**38,954**	**176,269**	**81,197**	**15,668**	**(183,441)**	**838,652**

	Year Ended December 31, 2017								
($M)	Canada	France	Netherlands	Germany	Ireland	Australia	USA	Corporate	Total
Total assets	1,542,193	831,783	203,929	295,026	667,068	236,677	73,867	124,422	3,974,965
Drilling and development	148,667	71,087	15,107	6,165	551	29,942	19,074	—	290,593
Exploration and evaluation	—	2,294	16,468	3,366	—	—	—	7,728	29,856
Crude oil and condensate sales	209,560	268,102	1,864	23,554	—	154,391	14,605	—	672,076
NGL sales	37,809	—	—	—	—	—	456	—	38,265
Natural gas sales	83,534	1	106,196	45,142	153,330	—	294	—	388,497
Royalties	(33,258)	(28,565)	(1,722)	(6,655)	—	—	(4,276)	—	(74,476)
Revenue from external customers	297,645	239,538	106,338	62,041	153,330	154,391	11,079	—	1,024,362
Transportation	(17,368)	(14,627)	—	(6,207)	(5,205)	—	(41)	—	(43,448)
Operating	(80,444)	(51,002)	(21,212)	(20,176)	(17,596)	(50,139)	(1,698)	—	(242,267)
General and administration	(9,604)	(13,585)	(2,212)	(7,767)	(2,320)	(8,194)	(4,341)	(6,350)	(54,373)
PRRT	—	—	—	—	—	(19,819)	—	—	(19,819)
Corporate income taxes	—	(10,556)	3,331	—	—	(4,536)	—	(527)	(12,288)
Interest expense	—	—	—	—	—	—	—	(57,313)	(57,313)
Realized gain on derivative instruments	—	—	—	—	—	—	—	4,721	4,721
Realized foreign exchange gain	—	—	—	—	—	—	—	2,316	2,316
Realized other income	—	—	—	—	—	—	—	674	674
Fund flows from operations	**190,229**	**149,768**	**86,245**	**27,891**	**128,209**	**71,703**	**4,999**	**(56,479)**	**602,565**

Reconciliation of fund flows from operations to net earnings:

	Year Ended	
($M)	Dec 31, 2018	Dec 31, 2017
Fund flows from operations	**838,652**	602,565
Accretion	**(31,219)**	(26,971)
Depletion and depreciation	**(609,056)**	(491,683)
Gain on business combinations	**128,208**	—
Unrealized gain (loss) on derivative instruments	**109,326**	(1,062)
Equity based compensation	**(60,746)**	(61,579)
Unrealized foreign exchange (loss) gain	**(63,243)**	71,742
Unrealized other expense	**(801)**	(637)
Deferred tax	**(39,471)**	(30,117)
Net earnings	**271,650**	62,258

5. Business combinations

Private Producer in Southeast Saskatchewan and Southwest Manitoba

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

The total consideration paid and the fair value of the assets acquired and liabilities assumed at the date of acquisition are detailed in the table below.

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

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

For the year ended December 31, 2018, the acquisition contributed revenues of $18.7 million and net earnings of $6.7 million. Had the acquisition occurred on January 1, 2018, revenues would have increased by $2.9 million and net earnings would have increased by $1.0 million for the year ended December 31, 2018.

Spartan Energy Corp.

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

Consideration consisted of the issuance of 27.9 million Vermilion common shares valued at approximately $1.2 billion (based on the closing price per Vermilion common share of $44.30 on the Toronto Stock Exchange on May 28, 2018). Acquisition-related costs of $1.3 million were incurred in the year ended December 31, 2018.

The total consideration paid and the fair value of the assets acquired and liabilities assumed as at the date of the acquisition are detailed in the table below.

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

($M)	Allocation of consideration
Capital assets	1,401,686
Deferred tax assets	123,813
Long-term debt	(150,196)
Asset retirement obligations	(92,149)
Lease obligations	(25,455)
Assumed working capital deficit	(22,478)
Net assets acquired	**1,235,221**

For the year ended December 31, 2018, the acquisition contributed revenues of $242.1 million and net earnings of $45.1 million. Had the acquisition occurred on January 1, 2018, revenues would have increased by $182.4 million and net earnings would have increased by $35.0 million for the year ended December 31, 2018.

Assets in Wyoming

In August 2018, Vermilion acquired oil and gas producing assets and mineral leasehold land from a private oil company for total cash consideration of approximately $189 million. The assets are located in Campbell County, Wyoming in the Powder River Basin, approximately 65 kilometres northwest of Vermilion's existing operations. The acquired assets complement Vermilion's existing Powder River operations and align with the Company's sustainable growth-and-income model. The acquisition was funded through Vermilion's revolving credit facility.

The total consideration paid and the fair value of the assets acquired and liabilities assumed at the date of acquisition are detailed in the table below.

($M)	Consideration
Cash paid to vendor	189,014
Total consideration	**189,014**

($M)	Allocation of consideration
Capital assets	284,333
Deferred tax liability	(19,019)
Asset retirement obligations	(4,821)
Assumed working capital deficit	(2,651)
Net assets acquired	**257,842**
Gain on business combination	(68,828)
Total net assets acquired, net of gain on business combination	**189,014**

The gain on the business combination primarily resulted from the recognition of additional reserve value when the acquisition closed compared to the estimated value when Vermilion entered into the purchase and sale agreement and the acquisition price was determined.

For the year ended December 31, 2018, the acquisition contributed revenues of $11.6 million and net earnings of $0.3 million. Had the acquisition occurred on January 1, 2018, revenues would have increased by $11.1 million and net earnings would have decreased by $0.1 million for the year ended December 31, 2018.

Shell E&P Ireland Limited

In December 2018, Vermilion acquired all of the issued and outstanding common shares of Shell E&P Ireland Limited, along with an incremental 1.5% working interest in the Corrib Natural Gas Project ("Corrib") in Ireland from Nephin Energy Holdings Limited, a wholly owned subsidiary of Canada Pension Plan Investment Board. The acquisition increases Vermilion's total ownership in Corrib to 20% and aligns with the Company's sustainable growth-and-income model. In addition to this transaction, Vermilion has assumed operatorship of Corrib.

The total consideration paid and the fair value of the assets acquired and liabilities assumed as at the date of the acquisition are detailed in the table below.

($M)	Consideration
Cash paid to vendor	40,805
Cash acquired	(82,116)
Contingent consideration	290
Total consideration	**(41,021)**

($M)	Allocation of consideration
Capital assets	53,368
Deferred tax assets	4,239
Assumed working capital deficit	(35,449)
Lease obligations	(2,234)
Asset retirement obligations	(1,565)
Net assets acquired	**18,359**
Gain on business combination	(59,380)
Total net assets acquired, net of gain on business combination	**(41,021)**

The fair value of the contingent consideration obligation is estimated to be approximately $0.3 million based on estimated future commodity prices and estimated reserves. Maximum contingent payments are €5.8 million (approximately $9.1 million) through 2025.

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 July 2017 and when the acquisition closed in December 2018.

For the year ended December 31, 2018, the acquisition contributed revenues of $1.3 million and net earnings of $0.4 million. Had the acquisition occurred on January 1, 2018, revenues would have increased by $15.2 million and net earnings would have increased by $4.3 million for the year ended December 31, 2018.

Minor acquisitions

Vermilion completed a number of minor acquisitions during the year ended December 31, 2018 for total cash consideration of $56.0 million, in which $147.4 million of capital assets, $28.6 million of exploration and evaluation assets, and $104.0 million of asset retirement obligations were recognized.

6. Capital assets

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

($M)	2018	2017
Balance at January 1	**3,337,965**	3,433,245
Acquisitions	**1,975,327**	25,390
Additions	**503,842**	290,593
Increase in right-of-use assets	**98,343**	—
Transfers from exploration and evaluation assets	**29,615**	8,187
Depletion and depreciation	**(605,994)**	(479,698)
Changes in asset retirement obligations	**(100,876)**	(48,187)
Foreign exchange	**78,651**	108,435
Balance at December 31	**5,316,873**	3,337,965

Cost	**9,202,604**	6,539,052
Accumulated depletion and depreciation	**(3,885,731)**	(3,201,087)
Carrying amount at December 31	**5,316,873**	3,337,965

The following table discloses the carrying balance and depreciation charge relating to right-of-use assets by class of underlying asset as at and for the year ended December 31, 2018:

($M)	Depreciation	Balance
Office space	**9,119**	**62,279**
Gas processing facilities	**5,491**	**41,788**
Oil storage facilities	**2,728**	**20,758**
Vehicles and equipment	**2,020**	**9,121**
Total	**19,358**	**133,946**

2018 and 2017 impairment assessment

As at December 31, 2018 and 2017, Vermilion did not identify any indicators of impairment.

7. Exploration and evaluation assets

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

($M)	2018	2017
Balance at January 1	**292,278**	274,830
Acquisitions	**28,572**	2,247
Additions	**14,372**	29,856
Changes in asset retirement obligations	**629**	(30)
Transfers to capital assets	**(29,615)**	(8,187)
Depreciation	**(5,942)**	(11,727)
Foreign exchange	**3,001**	5,289
Balance at December 31	**303,295**	292,278

Cost	**371,015**	354,615
Accumulated depreciation	**(67,720)**	(62,337)
Carrying amount at December 31	**303,295**	292,278

8. Asset retirement obligations

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

($M)	2018	2017
Balance at January 1	**517,180**	525,022
Additional obligations recognized	**211,580**	3,273
Changes in estimated abandonment timing and costs	**(98,158)**	(48,904)
Obligations settled	**(15,765)**	(9,334)
Accretion	**31,219**	26,971
Changes in discount rates	**(6,646)**	(2,586)
Foreign exchange	**10,754**	22,738
Balance at December 31	**650,164**	517,180

Vermilion has estimated the asset retirement obligations based on a total undiscounted future liability of $2.6 billion (2017 - $1.6 billion). These payments are expected to be made between 2020 and 2078, with the majority of spending occurring between 2029 and 2036 ($0.6 billion), 2047 to 2055 ($0.6 billion), and 2063 and 2068 ($0.9 billion). Inflation rates used in determining the cash flow estimates were between 0.5% and 2.9% (2017 - between 0.6% and 2.2%). Vermilion calculated the present value of the obligations using a credit-adjusted risk-free rate, calculated using a credit spread of 4.0% (2017 - 3.8%) added to risk-free rates based on long-term, risk-free government bonds.

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

	Dec 31, 2018	Dec 31, 2017
Canada	**2.2%**	2.3%
France	**1.6%**	1.8%
Netherlands	**0.4%**	0.5%
Germany	**0.9%**	1.0%
Ireland	**1.6%**	0.4%
Australia	**2.6%**	2.9%
USA	**2.7%**	2.4%

A 0.5% increase/decrease in the discount rate applied to asset retirement obligations would decrease/increase asset retirement obligations by approximately $55.0 million. A one-year increase/decrease in the expected timing of abandonment spend would decrease/increase asset retirement obligations by approximately $25.0 million.

9. Derivative instruments

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

	Year Ended	
($M)	Dec 31, 2018	Dec 31, 2017
Fair value of contracts, beginning of year	**(70,713)**	(69,651)
Reversal of opening contracts settled during the year	**57,719**	43,324
Assumed in acquisitions	**(274)**	—
Realized (loss) gain on contracts settled during the year	**(111,258)**	4,721
Unrealized gain (loss) during the year on contracts outstanding at the end of the year	**51,607**	(44,386)
Net receipt from counterparties on contract settlements during the year	**111,258**	(4,721)
Fair value of contracts, end of year	**38,339**	(70,713)
Comprised of:		
Current derivative asset	**95,667**	17,988
Current derivative liability	**(41,016)**	(78,905)
Non-current derivative asset	**1,215**	2,552
Non-current derivative liability	**(17,527)**	(12,348)
Fair value of contracts, end of year	**38,339**	(70,713)

The loss (gain) on derivative instruments for 2018 and 2017 were comprised of the following:

	Year Ended	
($M)	Dec 31, 2018	Dec 31, 2017
Realized loss (gain) on contracts settled during the year	**111,258**	(4,721)
Reversal of opening contracts settled during the year	**(57,719)**	(43,324)
Unrealized (gain) loss on contracts outstanding at the end of the year	**(51,607)**	44,386
Loss (gain) on derivative instruments	**1,932**	(3,659)

Please refer to Note 19 (Supplemental information) for a listing of Vermilion's outstanding derivative instruments as at December 31, 2018.

10. Leases

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

	As at	
($M)	Dec 31, 2018	Dec 31, 2017
Less than 1 year	**30,641**	6,680
1 - 3 years	**50,024**	10,207
4 - 5 years	**34,313**	4,665
After 5 years	**42,739**	3,351
Total lease payments	**157,717**	24,903
Amounts representing interest	**(24,583)**	(3,526)
Present value of net lease payments	**133,134**	21,377
Current portion of lease obligations	**(24,945)**	(5,570)
Non-current portion of lease obligations	**108,189**	15,807

The significant increase in total lease payments as at December 31, 2018 compared to December 31, 2017 primarily relates to the adoption of IFRS 16 effective January 1, 2018 and lease obligations assumed on acquisitions. Please refer to Note 3 (Changes to accounting pronouncements), Note 5 (Business combinations), and Note 6 (Capital assets) for additional information.

For the year ended December 31, 2018, interest expense of $7.2 million and total cash outflow of $28.0 million were recognized relating to lease obligations.

11. Taxes

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

($M)	As at Dec 31, 2018	Dec 31, 2017
Deferred tax assets:		
Non-capital losses	**487,398**	342,202
Capital assets	**(296,591)**	(294,178)
Asset retirement obligations	**38,429**	28,056
Derivative contracts	**(11,937)**	10,164
Unrealized foreign exchange	**(1,873)**	(7,927)
Other	**3,985**	2,007
Deferred tax assets	**219,411**	80,324
Deferred tax liabilities:		
Capital assets	**(319,553)**	(259,236)
Non-capital losses	**57,785**	34,703
Asset retirement obligations	**(51,031)**	(27,868)
Unrealized foreign exchange	**(10,715)**	(13,355)
Derivative contracts	**—**	11,386
Other	**5,380**	1,262
Deferred tax liabilities	**(318,134)**	(253,108)

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

($M)	Year Ended Dec 31, 2018	Dec 31, 2017
Earnings before income taxes	**354,698**	124,482
Canadian corporate tax rate	**27.0%**	27.0%
Expected tax expense	**95,768**	33,610
Increase (decrease) in taxes resulting from:		
Petroleum resource rent tax rate (PRRT) differential (1)	**5,349**	3,531
Foreign tax rate differentials (1), (2)	**3,086**	7,146
Equity based compensation expense	**13,883**	10,343
Amended returns and changes to estimated tax pools and tax positions	**(873)**	(17,246)
Statutory rate changes and the estimated reversal rates associated with temporary differences (3)	**—**	(16,449)
(Re-recognition) de-recognition of deferred tax assets	**(26,931)**	44,608
Adjustment for uncertain tax positions	**8,080**	2,191
Gain on business combinations	**(28,812)**	—
Other non-deductible items	**13,498**	(5,510)
Provision for income taxes	**83,048**	62,224

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

(2) The applicable tax rates for 2018 were: 34.4% in France, 50.0% in the Netherlands, 30.2% in Germany, 25.0% in Ireland, and 21.0% in the United States.

(3) On December 22, 2017, the Tax Cuts and Jobs Act was signed into law in the United States reducing the U.S. federal corporate income tax rate from 35% to 21%. On December 21, 2017, the French Parliament approved the Finance Bill for 2018. The Finance Bill for 2018 provides for a progressive decrease of the French standard corporate income tax rate from 34.43% to 25.825% by 2022. On December 18, 2018, the Dutch government approved the 2019 Tax Plan. The Bill provides for reduced corporate tax rates from 25.0% to 20.5% by 2021, with the first reduction planned for 2020 to 22.55%. Due to the tax regime applicable to natural gas producers in the Netherlands, the reduction to the corporate tax rate is not expected to have a material impact to Vermilion taxes in the Netherlands.

At December 31, 2018, Vermilion had $2.6 billion (2017 - $2.0 billion) of unused tax losses of which $1.1 billion (2017 - $0.5 billion) relates to Vermilion's Canada segment and expire between 2025 and 2038 and $1.3 billion (2017 - $1.3 billion) relates to Vermilion's Ireland segment and do not expire. The year-over-year increase in unused tax losses in Vermilion's Canada segment was the result of tax losses acquired in the business combinations described in Note 5.

At December 31, 2018, Vermilion re-recognized $90.6 million (2017 - de-recognized $145.6 million) of deductible temporary differences relating to the aforementioned non-expiring tax loss pools in Ireland based on the Company's expected ability to fully utilize such losses based on commodity price forecasts in effect as at December 31, 2018.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized as at December 31, 2018 is approximately $0.5 billion (2017 – approximately $0.4 billion).

12. Long-term debt

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

	As at	
($M)	Dec 31, 2018	Dec 31, 2017
Revolving credit facility	**1,392,206**	899,595
Senior unsecured notes	**404,001**	370,735
Long-term debt	**1,796,207**	1,270,330

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

($M)	2018	2017
Balance at January 1	**1,270,330**	1,362,192
Borrowings (repayments) on the revolving credit facility	**251,155**	(450,646)
Issuance of senior unsecured notes	**—**	391,906
Assumed on acquisitions (1)	**188,496**	—
Amortization of transaction costs and prepaid interest	**2,286**	2,012
Foreign exchange	**83,940**	(35,134)
Balance at December 31	**1,796,207**	1,270,330

(1) Pursuant to the acquisitions described in Note 5 (Business Combinations), Vermilion assumed the credit facilities of the acquired companies and immediately extinguished them following the respective acquisitions using proceeds from Vermilion's revolving credit facility.

Revolving credit facility

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

	As at	
($M)	Dec 31, 2018	Dec 31, 2017
Total facility amount	**1,800,000**	1,400,000
Amount drawn	**(1,392,206)**	(899,595)
Letters of credit outstanding	**(15,400)**	(7,400)
Unutilized capacity	**392,394**	493,005

The facility can be extended from time to time at the option of the lenders and upon notice from Vermilion. If no extension is granted by the lenders, the amounts owing pursuant to the facility are due at the maturity date. The facility is secured by various fixed and floating charges against the subsidiaries of Vermilion.

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

As at December 31, 2018, the revolving credit facility was subject to the following financial covenants:

		As at	
Financial covenant	Limit	Dec 31, 2018	Dec 31, 2017
Consolidated total debt to consolidated EBITDA	4.0	**1.72**	1.87
Consolidated total senior debt to consolidated EBITDA	3.5	**1.34**	1.30
Consolidated total senior debt to total capitalization	55%	**30%**	32%

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

- Consolidated total debt: Includes all amounts classified as "Long-term debt" and "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.
- Total capitalization: Includes all amounts classified as "Shareholders' equity" plus consolidated total debt as defined above.

As at December 31, 2018 and 2017, Vermilion was in compliance with the above covenants.

Senior unsecured notes

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

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

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

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

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

13. Shareholders' capital

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

	2018		2017	
Shareholders' Capital	Shares ('000s)	Amount ($M)	Shares ('000s)	Amount ($M)
Balance at January 1	**122,119**	**2,650,706**	118,263	2,452,722
Shares issued for acquisition	**27,883**	**1,234,676**	—	—
Shares issued for the Dividend Reinvestment Plan	**1,179**	**49,051**	2,429	110,493
Vesting of equity based awards	**1,025**	**54,057**	1,060	69,743
Shares issued for equity based compensation	**314**	**12,565**	197	9,270
Share-settled dividends on vested equity based awards	**184**	**7,773**	170	8,478
Balance at December 31	**152,704**	**4,008,828**	122,119	2,650,706

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

Dividends are approved by the Board of Directors and are paid monthly. Dividends declared to shareholders for the year ended December 31, 2018 were $388.1 million or $2.72 per common share (2017 - $311.4 million or $2.58 per common share).

Subsequent to the end of year-end and prior to the consolidated financial statements being authorized for issue on February 27, 2019, Vermilion declared dividends of $70.3 million or $0.230 per share for each of January and February of 2019.

14. Capital disclosures

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

Vermilion monitors the ratio of net debt to fund flows from operations. As at December 31, 2018, our ratio of net debt to trailing fund flows from operations is 2.30 (2017 - 2.28). Vermilion manages the ratio of net debt to fund flows from operations (refer to Note 4 - Segmented Information) by aligning capital expenditures, dividends, and asset retirement obligations with expected fund flows from operations. Vermilion intends for the ratio of net debt to fund flows from operations to trend towards 1.5 over time.

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

	Year Ended	
($M except as indicated)	**Dec 31, 2018**	**Dec 31, 2017**
Long-term debt	**1,796,207**	1,270,330
Current liabilities	**563,199**	363,306
Current assets	**(429,877)**	(261,846)
Net debt	**1,929,529**	1,371,790
Ratio of net debt to fund flows from operations	**2.30**	2.28

15. Equity based compensation

The following table summarizes the number of awards outstanding under the VIP and the Five-Year Compensation Arrangement:

Number of Awards ('000s)	2018	2017
Opening balance	**1,685**	1,738
Granted	**932**	563
Vested	**(520)**	(539)
Forfeited	**(166)**	(77)
Closing balance	**1,931**	1,685

For the year ended December 31, 2018, the awards granted had a weighted average fair value of $40.57 (2017 - $49.44). Equity based compensation expense is calculated based on the number of awards outstanding multiplied by the estimated performance factor that will be realized upon vesting (2018 - 1.9; 2017 - 1.9) adjusted by an estimated annual forfeiture rate (2018 - 4.6%; 2017 - 4.4%). Equity based compensation expense of $48.2 million was recorded during the year ended December 31, 2018 (2017 - $52.3 million) relating to the awards.

As at December 31, 2018, 36,845 awards included in the closing balance related to the Five-Year Compensation Arrangement.

16. Per share amounts

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

	Year Ended	
($M except per share amounts)	**Dec 31, 2018**	**Dec 31, 2017**
Net earnings	**271,650**	62,258
Basic weighted average shares outstanding ('000s)	**140,619**	120,582
Dilutive impact of equity based compensation ('000s)	**1,716**	1,826
Diluted weighted average shares outstanding ('000s)	**142,335**	122,408
Basic earnings per share	**1.93**	0.52
Diluted earnings per share	**1.91**	0.51

17. Financial instruments

Classification of financial instruments

The following table summarizes information relating to Vermilion's financial instruments:

	As at Dec 31, 2018		As at Dec 31, 2017	
($M)	Carrying value	Fair value	Carrying value	Fair value
Fair value through profit or loss				
Cash and cash equivalents	**26,809**	**26,809**	46,561	46,561
Derivative assets	**96,882**	**96,882**	20,540	20,540
Derivative liabilities	**(58,543)**	**(58,543)**	(91,253)	(91,253)
Amortized cost				
Accounts receivable	**260,322**	**260,322**	165,760	165,760
Accounts payable and accrued liabilities	**(449,651)**	**(449,651)**	(219,084)	(219,084)
Dividends payable	**(35,122)**	**(35,122)**	(26,256)	(26,256)
Long-term debt	**(1,796,207)**	**(1,781,809)**	(1,270,330)	(1,274,891)

On January 1, 2018, Vermilion adopted IFRS 9 "Financial instruments". As a result, Vermilion's financial instruments were re-categorized following IFRS 9's new measurement categories. There were no changes in the carry amounts of financial instruments as a result of this re-categorization. Under IAS 39 "Financial instruments: recognition and measurement", Vermilion's financial instruments were classified as follows:

- Cash and cash equivalents and derivative assets were classified as held for trading. Held for trading financial instruments were subsequently measured at fair value on the consolidated balance sheet with gains and losses recognized in net earnings.
- Accounts receivable were classified as loans and receivables while accounts payable and accrued liabilities, dividends payable, lease obligations, and long-term debt were classified as other financial liabilities. Loans and receivables and other financial liabilities were subsequently measured at amortized cost on the consolidated balance sheet.

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

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

There were no transfers between levels in the hierarchy in the years ended December 31, 2018 and 2017.

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

Nature and Extent of Risks Associated with Financial Instruments

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

Commodity price risk

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

Currency risk

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

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

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

($M)	Dec 31, 2018	Dec 31, 2017
Currency risk - Euro to Canadian dollar		
$0.01 increase in strength of the Canadian dollar against the Euro	**(2,205)**	(4,607)
$0.01 decrease in strength of the Canadian dollar against the Euro	**2,205**	4,607
Currency risk - US dollar to Canadian dollar		
$0.01 increase in strength of the Canadian dollar against the US $	**2,981**	2,239
$0.01 decrease in strength of the Canadian dollar against the US $	**(2,981)**	(2,239)
Commodity price risk - Crude oil		
US $5.00/bbl increase in crude oil price used to determine the fair value of derivatives	**(18,421)**	(21,616)
US $5.00/bbl decrease in crude oil price used to determine the fair value of derivatives	**17,351**	19,845
Commodity price risk - European natural gas		
€ 0.5/GJ increase in European natural gas price used to determine the fair value of derivatives	**(36,508)**	(32,642)
€ 0.5/GJ decrease in European natural gas price used to determine the fair value of derivatives	**33,005**	25,321

Credit risk:
Vermilion is exposed to credit risk on accounts receivable and derivative assets in the event that customers, joint operation partners, or counterparties fail to discharge their contractual obligations. As at December 31, 2018, Vermilion's maximum exposure to receivable credit risk was $357.2 million (December 31, 2017 - $186.3 million) which is the value of accounts receivable and derivative assets on the balance sheet.

Vermilion's accounts receivable primarily relates to customers and joint operations partners in the petroleum and natural gas industry. These amounts are subject to normal industry payment terms and credit risks. Vermilion manages these risks by monitoring the creditworthiness of customers and joint operations partners and, where appropriate, obtaining assurances such as parental guarantees and letters of credit. Vermilion determines the lifetime expected credit losses recognized on accounts receivable using a provision matrix. In preparing the provision matrix, the Company takes into account historical credit loss experience based on the aging of accounts receivable, adjusted as necessary for current and future petroleum and natural gas prices to the extent that changes in pricing may negatively impact the Company's customers and joint operations partners. The lifetime expected credit losses on accounts receivable as at December 31, 2018 and 2017 is not material. As at the balance sheet date, approximately 0.7% (2017 - 0.7%) of the accounts receivable balance was outstanding for more than 90 days. Vermilion considers the balance of accounts receivable to be collectible.

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

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

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

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

($M)	1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years
December 31, 2018	167,491	306,927	10,355	1,472,087
December 31, 2017	99,092	138,273	7,974	912,306

18. Related party disclosures

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

The following table summarizes the compensation of directors and other members of key management personnel during the years ended December 31, 2018 and 2017:

	Year Ended	
($M)	Dec 31, 2018	Dec 31, 2017
Short-term benefits	**6,018**	5,183
Share-based payments	**16,309**	20,135
	22,327	25,318
Number of individuals included in the above amounts	**18**	20

During the year ended December 31, 2018, Vermilion recorded $0.2 million of office rent recoveries (2017 - $0.2 million) relating to an office sub-lease to a company whose Managing Director is also a member of Vermilion's Board of Directors. This related party transaction is provided in the normal course of business under the same commercial terms and conditions as transactions with unrelated companies and is recorded at the exchange amount.

19. Supplemental information

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

	Year Ended	
($M)	Dec 31, 2018	Dec 31, 2017
Changes in:		
Accounts receivable	**(94,562)**	(34,041)
Crude oil inventory	**(10,646)**	(2,577)
Prepaid expenses	**(4,896)**	(1,884)
Accounts payable and accrued liabilities	**230,567**	37,527
Income taxes payable	**(1,651)**	2,842
Working capital assumed from acquisitions	**(58,841)**	—
Initial recognition of IFRS 16 liability	**(10,483)**	—
Foreign exchange	**(873)**	(795)
Changes in non-cash working capital	**48,615**	1,072
Changes in non-cash operating working capital	**(6,876)**	665
Changes in non-cash investing working capital	**55,491**	407
Changes in non-cash working capital	**48,615**	1,072

Cash and cash equivalents was comprised of the following:

	As at	
($M)	Dec 31, 2018	Dec 31, 2017
Cash on deposit with financial institutions	**26,604**	46,229
Guaranteed investment certificates	**205**	332
Cash and cash equivalents	**26,809**	46,561

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

($M)	Year Ended 2018	2017
Operating expense	**66,095**	48,823
General and administration expense	**42,496**	36,708
Wages and benefits	**108,591**	85,531

The following tables summarize Vermilion's outstanding risk management positions as at December 31, 2018:

Crude Oil	Period	Exercise date (1)	Currency	Bought Put Volume (bbl/d)	Weighted Average Bought Put Price / bbl	Sold Call Volume (bbl/d)	Weighted Average Sold Call Price / bbl	Sold Put Volume (bbl/d)	Weighted Average Sold Put Price / bbl	Swap Volume (bbl/d)	Weighted Average Swap Price / bbl
Dated Brent											
3-Way Collar	Sep 2018 - Jun 2019		CAD	2,500	91.20	2,500	98.63	2,500	76.00	—	—
Swap	Jan 2019 - Dec 2019		CAD	—	—	—	—	—	—	1,350	91.76
3-Way Collar	Aug 2018 - Jun 2019		USD	500	66.92	500	80.00	500	55.00	—	—
3-Way Collar	Jan 2019 - Dec 2019		USD	500	70.00	500	80.00	500	60.00	—	—
Swap	Apr 2018 - Mar 2019		USD	—	—	—	—	—	—	750	61.33
Swap	Jul 2018 - Jun 2019		USD	—	—	—	—	—	—	1,500	68.52
Swap	Jan 2019 - Dec 2019		USD	—	—	—	—	—	—	2,250	73.17
WTI											
Swap	Jan 2019 - Dec 2019		CAD	—	—	—	—	—	—	1,050	81.41
3-Way Collar	Jan 2019 - Dec 2019		USD	250	70.00	250	80.25	250	60.00	—	—
Swap	Apr 2018 - Mar 2019		USD	—	—	—	—	—	—	250	54.00

North American Gas	Period	Exercise date (1)	Currency	Bought Put Volume (mcf/d)	Weighted Average Bought Put Price / mcf	Sold Call Volume (mcf/d)	Weighted Average Sold Call Price / mcf	Sold Put Volume (mcf/d)	Weighted Average Sold Put Price /mcf	Swap Volume (mcf/d)	Weighted Average Swap Price / mcf
AECO											
Swap	Dec 2018 - Mar 2019		CAD	—	—	—	—	—	—	2,500	2.41
AECO Basis (AECO less NYMEX Henry Hub)											
Swap	Jan 2019 - Jun 2020		USD	—	—	—	—	—	—	2,500	(0.93)
AECO Basis (AECO less Chicago NGI)											
Swap	Nov 2018 - Mar 2019		USD	—	—	—	—	—	—	5,000	(1.46)
NYMEX Henry Hub											
Swap	Jan 2019 - Mar 2019		USD	—	—	—	—	—	—	5,000	4.00
Chicago NGI											
Swap	Dec 2018 - Mar 2019		USD	—	—	—	—	—	—	5,000	4.40
SOCAL Border											
Swap (2)	Jan 2019		USD	—	—	—	—	—	—	10,000	5.50
Swap (2)	Feb 2019		USD	—	—	—	—	—	—	10,000	4.39
Swap (2)	Mar 2019		USD	—	—	—	—	—	—	10,000	3.36

(1) The sold swaption instrument allows the counterparty, at the specified date, to enter into a derivative instrument contract with Vermilion at the above detailed terms.

(2) These swaps hedge a physical sales agreement to sell Alberta natural gas production at SOCAL Border pricing less a fixed differential.

European Gas	Period	Exercise date [1]	Currency	Bought Put Volume (mcf/d)	Weighted Average Bought Put Price / mcf	Sold Call Volume (mcf/d)	Weighted Average Sold Call Price / mcf	Sold Put Volume (mcf/d)	Weighted Average Sold Put Price /mcf	Swap Volume (mcf/d)	Weighted Average Swap Price / mcf
NBP											
3-Way Collar	Jan 2019 - Dec 2019		EUR	17,197	4.97	17,197	5.65	17,197	3.79	—	—
3-Way Collar	Jan 2019 - Dec 2020		EUR	7,370	4.96	7,370	5.76	7,370	3.74	—	—
3-Way Collar	Jan 2020 - Dec 2020		EUR	19,654	5.10	19,654	5.92	19,654	4.01	—	—
Collar	Oct 2018 - Mar 2019		EUR	3,685	6.40	2,457	7.62	—	—	—	—
Call	Oct 2018 - Mar 2019		EUR	—	—	12,327	6.28	—	—	—	—
Swap	Oct 2018 - Mar 2019		EUR	—	—	—	—	—	—	4,913	7.92
Swaption	Jul 2019 - Jun 2021	June 28, 2019	EUR	—	—	—	—	—	—	9,827	5.64
Swaption	Oct 2019 - Mar 2020	June 28, 2019	EUR	—	—	—	—	—	—	7,370	5.86
Swaption	Oct 2020 - Mar 2021	June 28, 2019	EUR	—	—	—	—	—	—	7,370	5.86
Swaption	Oct 2021 - Mar 2022	June 28, 2019	EUR	—	—	—	—	—	—	7,370	5.86
NBP Basis (NBP less NYMEX HH)											
Collar	Jan 2019 - Sep 2020		USD	7,500	2.07	7,500	4.00	—	—	—	—
TTF											
3-Way Collar	Oct 2017 - Dec 2019		EUR	7,370	4.59	7,370	5.42	7,370	2.93	—	—
3-Way Collar	Jan 2018 - Dec 2019		EUR	3,685	4.74	3,685	5.52	3,685	3.13	—	—
3-Way Collar	Jan 2019 - Dec 2019		EUR	12,284	5.05	12,284	5.72	12,284	3.69	—	—
3-Way Collar	Jan 2020 - Dec 2020		EUR	7,370	5.37	7,370	6.25	7,370	3.81	—	—
Swap	Oct 2017 - Dec 2019		EUR	—	—	—	—	—	—	7,370	4.87
Swap	Jan 2018 - Dec 2019		EUR	—	—	—	—	—	—	1,228	5.00
Swap	Jul 2018 - Dec 2019		EUR	—	—	—	—	—	—	4,913	4.98
Swap	Jan 2019 - Dec 2019		EUR	—	—	—	—	—	—	2,457	4.92

Cross Currency Interest Rate		Receive Notional Amount (USD)	Rate (LIBOR +)	Pay Notional Amount (CAD)	Rate (CDOR +)
Swap	Jan 2019	1,018,563,000	1.70%	1,354,900,000	1.02%

(1) The sold swaption instrument allows the counterparty, at the specified date, to enter into a swap with Vermilion at the above detailed terms.

DIRECTORS

Lorenzo Donadeo [1]
Calgary, Alberta

Larry J. Macdonald [2, 4, 6, 8]
Chairman & CEO, Point Energy Ltd.
Calgary, Alberta

Carin Knickel [6, 8, 12]
Golden, Colorado

Stephen P. Larke [4, 6, 12]
Calgary, Alberta

Loren M. Leiker [10]
McKinney, Texas

Timothy R. Marchant [7, 10, 11]
Calgary, Alberta

Anthony Marino
Calgary, Alberta

Robert Michaleski [4, 5]
Calgary, Alberta

William Roby [8, 9, 12]
Katy, Texas

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

1 Chairman of the Board
2 Lead Director
3 Audit Committee Chair (Independent)
4 Audit Committee Member
5 Governance and Human Resources Committee Chair (Independent)
6 Governance and Human Resources Committee Member
7 Health, Safety and Environment Committee Chair (Independent)
8 Health, Safety and Environment Committee Member
9 Independent Reserves Committee Chair (Independent)
10 Independent Reserves Committee Member
11 Sustainability Committee Chair (Independent)
12 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

Jenson Tan
Vice President Business Development

Daniel Goulet
Director Corporate HSE

Jeremy Kalanuk
Director Operations Accounting

Bryce Kremnica
Director Field Operations - Canada Business Unit

Kyle Preston
Director Investor Relations

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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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.

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