Letter to Shareholders

Vermilion started 2020 on a strong footing in what appeared to be a constructive outlook for commodity prices. That all changed in mid-February as the effects from the COVID-19 pandemic started to take hold. As we are all too aware now, the pandemic had devastating effects on the global economy and commodity prices. As commodity prices collapsed, we took swift and decisive action, making drastic changes to our business to protect the balance sheet and preserve financial liquidity. We reduced our 2020 capital program in March, suspended our dividend in April, and, with other cost savings initiatives, reduced over $550 million combined of annualized cash outflows. In the months following, we made several changes to our executive leadership team and undertook a global organizational review to improve profitability and long-term sustainability. While these collective decisions were difficult to make, we can look back now with confidence and know that they were in the best interests of the Company. Not only did Vermilion successfully navigate this downturn, we have made several structural changes to our business that will improve our long-term sustainability and add value for our shareholders over the coming years.

One of the themes emerging from the COVID-19 pandemic is an increased awareness and focus on ESG matters and the energy transition. Vermilion has been focused on ESG for well over a decade and we take great pride in our ESG leadership within the mid-cap energy space. Sustainability is fundamental to our business which is reflected in our consistently strong results and rankings from external ESG agencies, including Vermilion's recent inclusion in the S&P Global (formerly SAM) Sustainability Yearbook 2021. We maintained our disciplined focus on ESG through 2020 despite the challenges caused by COVID-19, and we are committed to progressing our ESG initiatives in the future as we see Vermilion as a key contributor to the energy transition. As such, we are currently developing a comprehensive, long-term ESG strategy that will be fully integrated into our business with clear objectives, including further targets for emissions reductions. This new ESG strategy and associated targets are expected to be in place by mid-2021.

Despite all the challenges in 2020, we still managed to execute a $367 million E&D capital program and deliver annual average production of 95,190 boe/d, which is slightly above the midpoint of our guidance range of 94,000 to 96,000 boe/d. In 2020, we executed a front-end weighted capital program whereby approximately 65% of our E&D capital was invested in Q1 2020, resulting in peak production of over 100,000 boe/d in Q2 2020 and declining to 87,848 boe/d in Q4 2020. Through our profitability review, we have determined that this allocation of capital is not the most efficient and increases the challenges of managing our production base over time. We have incorporated these learnings into our 2021 budget and are targeting a much more level-loaded capital program in 2021, as was outlined in our budget announcement in January.

The volatile commodity environment in 2020 saw WTI oil prices peak above US$60/bbl at the beginning of the year and collapse to an unprecedented negative price in April as global storage levels surged following the stay-at-home measures put in place around the world. The WTI benchmark averaged US$39.40/bbl for 2020, compared to approximately US$57/bbl in 2019. European natural gas prices experienced similar price volatility as a result of the pandemic-induced demand destruction. The TTF benchmark traded below C$2/mcf in May but recovered to over C$8/mcf by December, averaging $4.30/mcf for the full year, compared to $5.90/mcf in 2019. Fortunately, we had the majority of our European conventional natural gas production hedged through the summer months at much higher prices, which offset some of this price weakness.

We generated $502 million of FFO[1] in 2020 and $135 million of FCF[1], which more than covered the dividends paid earlier in the year, along with reclamation and abandonment expenditures and minor acquisitions. In Q4 2020, we generated $135 million of FFO and invested $60 million of E&D capital, resulting in FCF of $75 million which went towards debt reduction. After accounting for reclamation and abandonment expenditures and minor acquisitions, we reduced the amount outstanding under our revolving credit facility by approximately $175 million during the second half of 2020, leaving us with over $500 million of liquidity available at year-end. Based on the mid-point of our 2021 production and capital expenditure guidance and assuming $60/bbl WTI oil prices for the balance of the year, we expect to generate over $350 million of FCF in 2021, which will be used to further reduce our debt.

It has been a challenging year for the oil and gas industry and Vermilion; however, we are pleased with what our Company has accomplished under the circumstances. While we still have lots of work to do, we believe our Company is on a much stronger footing today and is better positioned for long-term value creation. Vermilion has a world class asset base comprised of highly efficient, low decline conventional oil and natural gas producing assets that generate strong free cash flow. These assets provide risk reducing attributes owing to their global diversification and global commodity exposure, and also provide significant leverage to recovering global commodity prices. In the near-term, all of our free cash flow will be allocated to debt reduction, but as we begin to make more meaningful progress towards our debt targets, we will review our long-term shareholder return policy to determine the appropriate time to reinstate a dividend and/or share buyback program.

The achievements of our Company would not be possible without the dedication, creativity and hard work of our staff, and the strong leadership of our Board of Directors. Our staff and Board work collaboratively to assess and adapt to today's multi-faceted challenges to our industry, and to devise the corporate strategy that will continue our long-term record of success in the face of these new challenges. Vermilion is determined to stay at the forefront of economic, social and environmental success.

We would like to thank our shareholders for their ongoing support and look forward to providing further updates on our 2021 program as the year progresses.

(Signed "Lorenzo Donadeo")

Lorenzo Donadeo
Executive Chairman

(Signed "Curtis Hicks")

Curtis Hicks
President

Note:
1. Non-GAAP Financial Measure. See Advisory in Schedule "F".