



VERMILION ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2011

DISCLAIMER

Certain statements included or incorporated by reference in this document may constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward looking statements or information in this document may include, but are not limited to:

- capital expenditures;
- business strategy and objectives;
- reserve quantities and the discounted present value of future net cash flows from such reserves;
- net revenue;
- future production levels and rates of average annual production growth;
- exploration plans;
- development plans;
- acquisition and disposition plans and the timing thereof;
- operating and other costs;
- royalty rates;
- Vermilion's additional future payment in connection with the Corrib acquisition;
- the timing of regulatory proceedings and approvals;
- the timing of first commercial gas from the Corrib field; and
- estimate of Vermilion's share of the expected gas rates from the Corrib field.

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 oil 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;
- currency, exchange and interest rates;
- future oil and natural gas prices; and
- Management's expectations relating to the timing and results of 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. 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 and natural gas and market demand;
- risks and uncertainties involving geology of oil and natural gas deposits;
- risks inherent in Vermilion's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- Vermilion's ability to enter into or renew leases;
- fluctuations in oil 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 development and exploration activities;
- general economic and business conditions;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments;
- risks associated with existing and potential future law suits and regulatory actions against Vermilion; and
- other risks and uncertainties described elsewhere in this document or in Vermilion's other filings with Canadian securities regulatory authorities.

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

Natural gas volumes have been converted on the basis of six thousand cubic feet of natural gas to one barrel equivalent of oil. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") dated August 3, 2011 of Vermilion Energy Inc.'s ("Vermilion" or the "Company") operating and financial results as at and for the three and six month periods ended June 30, 2011 compared with the corresponding periods in the prior year. This discussion should be read in conjunction with the unaudited interim consolidated financial statements for the period ended June 30, 2011 and Vermilion's audited consolidated financial statements for the years ended December 31, 2010 and 2009, together with accompanying notes, as contained in Vermilion's 2010 Annual Report. Additional information relating to Vermilion, including its Annual Information Form, is available on SEDAR at www.sedar.com.

The unaudited interim consolidated financial statements and comparative information have been prepared in Canadian dollars, except where another currency has been indicated, and in accordance with Canadian Generally Accepted Accounting Principles for publicly accountable entities ("Canadian GAAP", "GAAP", or alternatively, International Financial Reporting Standards or "IFRS") International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards", and with International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board. Previously, Vermilion prepared its interim and annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles as issued by the Canadian Accounting Standards Board ("Previous GAAP").

CORPORATE CONVERSION

On September 1, 2010 Vermilion Energy Trust (the "Trust") completed the conversion from an income trust to a corporation pursuant to an arrangement under the *Business Corporations Act* (Alberta). As a result of this conversion, units of the Trust were converted to common shares of Vermilion on a one-for-one basis and holders of exchangeable shares in Vermilion Resources Ltd. received 1.89344 common shares for each exchangeable share held. There were no exchangeable shares outstanding following the conversion.

Vermilion retained the same board of directors and management team which continues to be led by Lorenzo Donadeo as President and Chief Executive Officer. There were no changes in Vermilion's underlying operations associated with the conversion. The consolidated financial statements and related financial information have been prepared on a continuity of interest basis, which recognizes Vermilion as the successor entity and accordingly all comparative information presented for the pre-conversion period is that of the Trust. **For the convenience of the reader, when discussing prior periods this MD&A refers to common shares, shareholders and dividends although for the pre-conversion period such items were trust units, unitholders and distributions, respectively.**

NON-GAAP MEASURES

This report includes non-GAAP measures as further described herein. These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities.

"Fund flows from operations" represents cash flows from operating activities before changes in non-cash operating working capital and asset retirement obligations settled. Management considers fund flows from operations and per share calculations of fund flows from operations (see discussion relating to per share calculations below) to be key measures as they demonstrate Vermilion's ability to generate the cash necessary to pay dividends, repay debt, fund asset retirement obligations and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, fund flows from operations provides a useful measure of Vermilion's ability to generate cash that is not subject to short-term movements in operating working capital. The most directly comparable GAAP measure is cash flows from operating activities. Cash flows from operating activities as presented in Vermilion's consolidated statements of cash flows is reconciled to fund flows from operations below:

(\$M)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Cash flows from operating activities	\$ 61,930	\$ 107,279	\$ 188,547	\$ 187,516
Changes in non-cash operating working capital	47,757	(18,547)	21,294	(21,889)
Asset retirement obligations settled	9,612	812	11,243	812
Fund flows from operations	\$ 119,299	\$ 89,544	\$ 221,084	\$ 166,439

“Net debt” is the sum of long-term debt and working capital excluding the amount due pursuant to acquisition as presented in Vermilion’s consolidated balance sheets. Net debt is used by management to analyze the financial position and leverage of Vermilion. Net debt is reconciled below to long-term debt which is the most directly comparable GAAP measure:

(\$M)	As At		As At	
	June 30, 2011	Dec 31, 2010	June 30, 2010	June 30, 2010
Long-term debt	\$ 367,923	\$ 302,558	\$ 229,588	
Current liabilities	332,364	340,934	193,668	
Current assets	(265,738)	(340,197)	(240,470)	
Net debt	\$ 434,549	\$ 303,295	\$ 182,786	

“Cash dividends per share” represents actual cash dividends declared per share by Vermilion during the relevant periods.

“Net dividends” is calculated as dividends declared for a given period less proceeds received by Vermilion pursuant to the dividend reinvestment plan. Dividends both before and after the dividend reinvestment plan are reviewed by management and are also assessed as a percentage of fund flows from operations to analyze how much of the cash that is generated by Vermilion is being used to fund dividends.

Net dividends is reconciled below to dividends declared, the most directly comparable GAAP measure:

(\$M)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Dividends declared	\$ 51,421	\$ 45,969	\$ 102,363	\$ 91,497
Issue of shares pursuant to the dividend reinvestment plan	(14,084)	(9,453)	(27,060)	(16,833)
Net dividends	\$ 37,337	\$ 36,516	\$ 75,303	\$ 74,664

“Total net dividends, capital expenditures, reclamation fund withdrawals and asset retirement obligations settled” is calculated as net dividends as determined above plus the following amounts for the relevant periods from Vermilion’s consolidated statements of cash flows: “Drilling and development of petroleum and natural gas properties”, “Exploration and evaluation of petroleum and natural gas properties”, “Withdrawals from reclamation fund” and “Asset retirement obligations settled.” This measure is reviewed by management and is also assessed as a percentage of fund flows from operations to analyze the amount of cash that is generated by Vermilion that is available to repay debt and fund potential acquisitions. This measure is reconciled to the relevant GAAP measures below:

(\$M)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Dividends declared	\$ 51,421	\$ 45,969	\$ 102,363	\$ 91,497
Issue of shares pursuant to the dividend reinvestment plan	(14,084)	(9,453)	(27,060)	(16,833)
Drilling and development of petroleum and natural gas properties	75,584	94,213	192,417	214,109
Exploration and evaluation of petroleum and natural gas properties	9,750	5,645	11,331	5,645
Withdrawals from reclamation fund	-	(812)	-	(812)
Asset retirement obligations settled	9,612	812	11,243	812
Total net dividends, capital expenditures, reclamation fund withdrawals and asset retirement obligations settled	\$ 132,283	\$ 136,374	\$ 290,294	\$ 294,418

“Netbacks” are per unit of production measures used in operational and capital allocation decisions.

“Adjusted basic shares outstanding” and “Adjusted basic weighted average shares outstanding” are different from the most directly comparable GAAP figures in that in the comparative period they include amounts related to outstanding exchangeable shares at the period end exchange ratio. As the exchangeable shares have converted into shares of Vermilion, management believes that their inclusion in the comparative period calculation of basic rather than only in diluted per share statistics provides meaningful information.

“Diluted shares outstanding” is the sum of adjusted basic shares outstanding as described above plus outstanding awards under Vermilion’s equity based compensation plans, based on current performance factor estimates.

These measures are reconciled to the relevant GAAP measures below:

(Number of shares)	Six Months Ended	
	June 30, 2011	June 30, 2010
Basic weighted average shares outstanding	89,682,179	80,158,188
Shares issuable pursuant to exchangeable shares outstanding	-	7,460,772
Adjusted basic weighted average shares outstanding	89,682,179	87,618,960

(Number of shares)	As At	As At
	June 30, 2011	June 30, 2010
Shares outstanding	90,321,562	80,743,859
Shares issuable pursuant to exchangeable shares outstanding	-	7,460,173
Adjusted basic shares outstanding	90,321,562	88,204,032
Potential shares issuable pursuant to equity based compensation plans	2,116,715	1,491,587
Diluted shares outstanding	92,438,277	89,695,619

“Diluted adjusted weighted average shares outstanding” is the sum of diluted weighted average shares outstanding as presented on the consolidated statements of earnings plus the weighted average amount of exchangeable shares and equity based compensation awards outstanding for the period which were considered anti-dilutive for the purposes of calculating earnings per share.

OPERATIONAL ACTIVITIES

Canada

In Canada, Vermilion drilled five operated Cardium wells (4.4 net) during the second quarter of 2011, with one well completed during the quarter. At the end of the second quarter, 22 (19.2 net) operated Cardium wells were on production and 24 (7.9 net) non-operated wells were on production. Vermilion anticipates the drilling of between 18 and 21 additional gross operated Cardium wells during the second half of 2011 and expects to end 2011 with approximately 50 net wells on production. Installation of several ‘trunk’ pipelines to transport Cardium production in the Drayton Valley region is now complete and construction of the 15,000 boe/d oil processing facility has concluded with the facility coming into service effective August 2, 2011.

France

In France, Vermilion drilled the Cazaux 91-D well to test an undeveloped fault block within the field in the Aquitaine Basin. Vermilion also completed workovers on four wells (4 net) during the second quarter of 2011 in the Cazaux and Chaunoy oil fields.

Netherlands

In the Netherlands, Vermilion completed pipeline construction and initiated production from the first of two producing zones from the Vinkega-1 well in late May. The second zone of the Vinkega-1 discovery well is anticipated to be put on production in the fall of 2011. Vermilion remained focused on regular facility and well maintenance and ongoing work in preparation to begin drilling the first of four wells planned for 2011 in August.

Australia

In Australia, efforts were focused on minor optimization and work-over related activities in addition to preparatory work for a two to three well drilling program in 2012. Australian realized pricing, on a per boe basis, was particularly strong in the second quarter of 2011 as a result of an inventory drawdown.

PRODUCTION

	Three Months Ended June 30, 2011				Six Months Ended June 30, 2011			
	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	%	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	%
Canada	5,209	43.30	12,426	35	5,148	43.30	12,366	36
France	8,273	0.88	8,419	24	8,341	0.95	8,500	24
Netherlands	54	33.77	5,682	16	50	31.88	5,362	16
Australia	8,692	-	8,692	25	8,501	-	8,501	24
Total production	22,228	77.95	35,219	100	22,040	76.13	34,729	100

	Three Months Ended June 30, 2010				Six Months Ended June 30, 2010			
	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	%	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	%
Canada	4,060	44.24	11,434	36	3,873	45.61	11,474	37
France	8,397	0.45	8,472	27	8,150	0.69	8,265	27
Netherlands	44	31.35	5,269	17	34	26.19	4,399	14
Australia	6,522	-	6,522	20	6,806	-	6,806	22
Total production	19,023	76.04	31,697	100	18,863	72.49	30,944	100

Average production in Canada remained relatively stable at 12,426 boe/d during the second quarter 2011 compared to 12,304 boe/d in first quarter 2011. Production increases from our Cardium program served to offset the loss of approximately 1,300 boe/d for approximately one month during the quarter due to forest fire activity in northern Alberta. Production was 8.7% higher compared to second quarter 2010 production of 11,434 boe/d, primarily attributable to production increases from the Cardium program offset by natural declines. Of more significance in today's commodity environment, oil and NGL production now represents nearly 42% of Canadian production as compared to 36% in the second quarter of 2010, reflecting our increasing leverage to liquids production in Canada. Canadian liquids production is expected to show continued growth in the second half of 2011 as Vermilion increases Cardium oil related activities, particularly in the fourth quarter, following the commissioning of the new 15,000 boe/d oil battery on August 2, 2011.

Average production in France of 8,419 boe/d in the second quarter 2011 was relatively unchanged as compared to 8,582 boe/d in the first quarter 2011. Production is expected to remain reasonably stable as a result of Vermilion's active well workover program. Second half 2011 production should benefit modestly from the addition of new production from the Cazaux-91D well which was drilled during the second quarter.

Production in the Netherlands averaged 5,682 boe/d in the second quarter 2011 as compared to 5,039 boe/d in the first quarter 2011. Second quarter production benefitted from the tie-in of incremental production from the first of two producing zones from the Vinkega-1 well that was drilled in 2009. The second producing zone is anticipated to be put on production in the fall of 2011. De-Hoeve-1, the fourth and final well from the 2009 drilling program, is anticipated to come on production during the first quarter of 2012. Together Vinkega-1 and De Hoeve-1 are anticipated to add between 1,500 and 2,000 boe/d of net production in the Netherlands. The Netherlands is expected to deliver continued production increases in the coming years from new drilling activity, although the timing of those increases is less predictable due to the extensive production permitting process.

Australia production averaged 8,692 boe/d in the second quarter 2011, an increase of approximately 5% compared to 8,309 boe/d in the first quarter 2011, primarily attributable to the absence of downtime related to strong cyclone activity that occurred during the first quarter, offset by production shut-ins to enable optimization and workover related activities. Vermilion expects to sustain annual average production at between 8,000 and 9,000 boe/d in 2011.

FINANCIAL REVIEW

During the three and six month periods ended June 30, 2011, Vermilion generated fund flows from operations of \$119.3 million and \$221.1 million, respectively. For the same period in 2010, Vermilion generated fund flows from operations of \$89.5 million and \$166.4 million, respectively. The respective increases in fund flows from operations of \$29.8 million and \$54.7 million resulted from increased revenue associated with stronger commodity prices and higher average production volumes. The GAAP measure, cash flows from operating activities similarly increased to \$188.5 million for the six month period ended June 30, 2011 versus \$187.5 million for the same period in 2010. The decrease in cash flows from operating activities of \$61.9 million for the three month period ended June 30, 2011 versus \$107.3 million for the three month period June 30, 2010 was primarily driven by decreases in accounts payable in the three month period ended June 30, 2011 as compared with the same period in 2010.

During the three and six month periods ended June 30, 2011, the price of WTI crude oil averaged US\$102.56 per bbl and US\$98.33 per bbl, respectively (three and six month periods ended June 30, 2010 US\$78.03 per bbl and US\$78.37 per bbl, respectively). During the three and six month periods ended June 30, 2011, the price of Brent crude oil averaged US\$117.36 per bbl and US\$111.16 per bbl, respectively (three and six month periods ended June 30, 2010 US\$78.30 per bbl and US\$77.27 per bbl, respectively).

For the three and six month periods ended June 30, 2011, the AECO price for gas averaged CDN\$3.87 per mcf and CDN\$3.82, respectively (three and six month periods ended June 30, 2010, CDN\$3.89 per mcf and CDN\$4.42, respectively).

For the three and six month periods ended June 30, 2011, the price of natural gas in Netherlands was CDN\$9.14 per mcf or €6.94 per mcf and CDN\$8.68 per mcf or €6.34 per mcf, respectively (three and six month periods ended June 30, 2010, CDN\$6.29 or €4.84 and CDN\$6.48 or €4.73, respectively).

Vermilion's net debt was \$434.5 million at June 30, 2011 (December 31, 2010 - \$303.3 million) representing 91% of second quarter annualized fund flows from operations. Net debt increased as a function of the increase in long term debt to fund capital expenditures as well as increases in the current derivative liabilities recorded for mark-to-market adjustments on oil hedges. Vermilion's long-term debt at June 30, 2011 was \$367.9 million (December 31, 2010 - \$302.6 million). The year to date increase is a function of Vermilion's capital expenditures largely driven by continued Cardium light oil development during the year, including the acquisition of Cardium lands, during 2011.

For the three and six month periods ended June 30, 2011, total net dividends, capital expenditures, reclamation fund withdrawals and asset retirement obligations settled (excluding capital expenditures and asset retirement obligations settled on the Corrib project) as a percentage of fund flows from operations were 92% and 117%, respectively (three and six month periods ended June 30, 2010, 130% and 156%, respectively). The year over year decreases in this ratio relate to improved fund flows as described above.

CAPITAL EXPENDITURES AND ACQUISITION OF PROPERTIES

Capital Expenditures by category (\$M)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Land	\$ 12,210	\$ 41,695	\$ 15,205	\$ 92,743
Seismic	2,108	797	3,873	2,226
Drilling and completion	27,884	14,598	90,967	42,874
Production equipment and facilities	32,405	23,697	76,156	48,329
Recompletions	5,725	13,024	10,991	19,657
Other	5,002	6,047	6,556	13,925
Total capital expenditures	85,334	99,858	203,748	219,754
Acquisition of petroleum and natural gas properties	(190)	(333)	38,101	621
Total capital expenditures and acquisitions of properties	\$ 85,144	\$ 99,525	\$ 241,849	\$ 220,375

Capital Expenditures by classification (\$M)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Drilling and development of petroleum and natural gas properties	\$ 75,584	\$ 94,213	\$ 192,417	\$ 214,109
Exploration and evaluation of petroleum and natural gas properties	9,750	5,645	11,331	5,645
Total capital expenditures	85,334	99,858	203,748	219,754
Acquisition of petroleum and natural gas properties	(190)	(333)	38,101	621
Total capital expenditures and acquisitions of properties	\$ 85,144	\$ 99,525	\$ 241,849	\$ 220,375

Total capital expenditures, including acquisitions for the three and six month periods ended June 30, 2011 was \$85.1 million and \$241.8 million, respectively (three and six month periods ended June 30, 2010, \$99.5 million and \$220.4 million, respectively).

Included in acquisition of properties are closing adjustments that reduced capital assets during the three and six months ended June 30, 2011 by \$0.2 million (three and six month periods ended June 30, 2010, \$0.3 million).

Capital expenditures excluding acquisitions was similar to the prior year. Increased activities on Cardium lands, including drilling, completions and facilities additions offset the reduction in land purchases as compared to the same period in 2010.

PETROLEUM AND NATURAL GAS SALES

(\$M except per boe and per mcf)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Crude oil & NGLs	\$ 232,677	\$ 134,032	\$ 423,045	\$ 267,497
Per boe	115.04	77.42	106.04	78.35
Natural gas	45,620	35,513	84,992	71,629
Per mcf	6.43	5.13	6.17	5.46
Petroleum and natural gas sales	\$ 278,297	\$ 169,545	\$ 508,037	\$ 339,126
Per boe	\$ 86.83	\$ 58.78	\$ 80.82	\$ 60.55

Vermilion's consolidated petroleum and natural gas sales for the three and six month periods ended June 30, 2011 increased significantly to \$278.3 million and \$508.0 million, respectively from \$169.5 million and \$339.1 million for the comparative periods in 2010. These year over year increases resulted from higher prices for oil internationally and natural gas in the Netherlands, as well as increased Canadian and Australian oil volumes and Netherlands gas volumes.

In Canada, petroleum and natural gas sales increased by \$17.1 million and \$23.7 million respectively for the three and six months ended June 30, 2011 versus the corresponding periods in the prior year. These increases resulted from higher oil production and stronger oil prices which more than offset decreases in natural gas volumes and prices. Vermilion's blended realized oil and NGL price for Canada increased to \$95.70 per bbl and \$90.43 per bbl for the three and six month periods ended June 30, 2011, respectively from \$71.73 per bbl and \$73.24 per bbl for the corresponding periods in the prior year. For the six month period ended June 30, 2011 the WTI reference price averaged US\$98.33 per bbl versus US\$78.37 per bbl for the same period in 2010. The increase in strength of the Canadian dollar year over year partially offset the favourable impact of higher US dollar denominated crude prices. The price realized for natural gas sales in Canada decreased year over year from CDN\$4.35 per mcf and CDN\$4.92 per mcf for the three and six month periods ended June 30, 2010, respectively, to CDN\$4.00 per mcf for the three and six month periods ended June 30, 2011. This decrease in realized prices for natural gas sales in Canada was due to a lower average AECO reference price of \$3.82 per mcf for the six month period ended June 30, 2011 versus \$4.42 per mcf for the same period in the prior year.

Vermilion's sales from its France operations are derived almost exclusively from oil volumes that are priced with reference to Dated Brent. Accordingly, Vermilion's sales in that jurisdiction benefited from the US\$12.83 average per bbl premium Brent commanded over WTI in the first half of 2011. For the same period in the prior year, Brent traded at a slight discount to WTI of US\$1.10 per bbl. Higher oil prices were responsible for \$39.3 million of the total \$42.8 million in increased sales realized by Vermilion's France operations for the first half of 2011. The balance of the sales increase was attributable to higher production volumes year over year. For the three months ended June 30, 2011, the increase in France sales of \$21.2 million related to higher crude prices.

Netherlands' sales increased for the three and six month periods ended June 30, 2011 by \$11.5 million and \$22.3 million, respectively. The increase in sales for the quarter ended June 30, 2011 was largely attributable to a higher sales price. Although second quarter 2011 production in the Netherlands was quite strong, the corresponding period in the prior year benefited from higher production resulting from two new wells being put on production towards the end of the first quarter, 2010. For the six month period ended June 30, 2011, a higher average sales price comprised \$15.7 million of the sales increase with an increase in volumes responsible for the remainder. Pricing for Vermilion's natural gas production in the Netherlands is highly correlated to the Dated Brent oil reference price. However, as a result of the pricing formula employed, there is a six to eight month lag before the impact of changes in oil prices are reflected in the realized price for Netherlands' natural gas sales. Accordingly, the increase in the Euro per mcf reference price through the second quarter of 2011 versus 2010 is associated with the increase in the Dated Brent reference price towards the end of 2010. The increase in strength of the Canadian dollar year over year partially offset the favourable impact of these higher prices. The first quarter 2011 increases in Dated Brent are expected to be reflected in Vermilion's Netherlands realized natural gas price starting in the third quarter of 2011.

Australian sales increased by \$59.0 million and \$80.1 million for the three and six month periods ended June 30, 2011, respectively, as compared to the prior year due to higher oil prices (\$55.4 million of the increase on a year to date basis) and increases in production volumes (\$24.7 million of the increase on a year to date basis). As noted previously, the stronger Canadian dollar as compared to the U.S. dollar in the first quarter of 2011 versus the same period in 2010 limited the increase in sales resulting from increased oil prices.

Vermilion carries an inventory of oil in France and Australia, which reflects a timing difference between production and sales. Crude oil inventories decreased substantially in the second quarter of 2011 versus the first quarter of 2011 due to a decrease in Australia's inventory of approximately 164,000 barrels, offset by an increase in France's inventory of approximately 48,000 barrels.

The following table summarizes Vermilion's ending inventory positions for the most recent four quarters:

Ending Inventory Positions (France and Australia)	As At June 30, 2011	As At Mar 31, 2011	As At Dec 31, 2010	As At Sep 30, 2010
France (bbls)	215,132	167,438	158,229	149,268
France (\$M) ¹	\$ 8,525	\$ 5,439	\$ 4,599	\$ 4,574
Australia (bbls)	62,397	226,183	172,199	107,744
Australia (\$M) ¹	\$ 2,250	\$ 7,932	\$ 6,108	\$ 3,529

¹ Represents the cost of the produced crude oil including operating costs, depletion and certain royalties. See "Royalties".

DERIVATIVE INSTRUMENTS

The following table summarizes Vermilion's outstanding financial derivative positions as at June 30, 2011.

Risk Management: Oil	Funded Cost	bbls/d	US \$/bbl
Collar - WTI			
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$ 96.20
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$ 96.25
July 2011 to December 2011	US \$1.00/bbl	2,400	\$ 80.00 - \$110.00
July 2011 to December 2011	US \$1.00/bbl	2,400	\$ 77.25 - \$ 98.50
Collar - BRENT			
January 2011 to December 2011	US \$1.00/bbl	1,000	\$ 77.75 - \$ 96.00
January 2011 to December 2011	US \$1.00/bbl	1,000	\$ 77.50 - \$ 96.00
January 2011 to December 2011	US \$0.00/bbl	750	\$ 77.00 - \$ 95.40
January 2011 to December 2011	US \$1.00/bbl	750	\$ 78.00 - \$ 98.10
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$100.00
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$100.05
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$100.00
January 2012 to June 2012	US \$1.00/bbl	750	\$ 82.00 - \$105.60
January 2012 to June 2012	US \$1.00/bbl	750	\$ 82.00 - \$104.80
January 2012 to June 2012	US \$1.00/bbl	750	\$ 82.00 - \$106.10
January 2012 to December 2012	US \$1.00/bbl	1,000	\$ 82.00 - \$113.40
January 2012 to December 2012	US \$1.00/bbl	500	\$ 82.00 - \$115.50
January 2012 to December 2012	US \$1.00/bbl	500	\$ 82.00 - \$130.75
July 2012 to December 2012	US \$1.00/bbl	1,000	\$ 82.00 - \$126.55
July 2012 to December 2012	US \$1.00/bbl	1,000	\$ 82.00 - \$126.05
Call Spread - BRENT			
January 2011 to December 2011	US \$6.08/bbl ¹	960	\$ 65.00 - \$ 85.00
January 2011 to December 2011	US \$5.15/bbl ¹	600	\$ 65.00 - \$ 85.00
Put - BRENT			
January 2012 to December 2012	US \$4.46/bbl	600	\$ 83.00
January 2012 to December 2012	US \$4.90/bbl	600	\$ 83.00
January 2012 to December 2012	US \$4.49/bbl	600	\$ 83.00
January 2012 to December 2012	US \$4.39/bbl	600	\$ 83.00
January 2012 to December 2012	US \$3.65/bbl	500	\$ 83.00
Risk Management: Natural Gas			
Swap - AECO			
January 2011 to October 2011	\$0.00/GJ	700	\$5.13
Collar - AECO			
July 2011 to October 2011	\$0.00/GJ	2,000	\$ 3.50 - \$ 3.91
Risk Management: Foreign Exchange			
US Dollar Forward Sale			
January 2011 to December 2011		Notional Principal (\$US) / Month	Fixed rate (\$CDN / \$US)
January 2011 to December 2011		\$750,000	\$1.07
January 2011 to December 2011		\$750,000	\$1.07

¹ The funded amounts for these instruments were paid in a prior period.

The nature of Vermilion's operations results in exposure to fluctuations in commodity prices, interest rates and foreign currency exchange rates. Vermilion monitors and, when appropriate, uses derivative financial instruments to manage its exposure to these fluctuations. All transactions of this nature entered into by Vermilion are related to an underlying financial position or to future petroleum and natural gas production. Vermilion does not use derivative financial instruments for speculative purposes. Vermilion has elected not to designate any of its price risk management activities as accounting hedges and thus accounts for changes to fair value in net earnings for the period. During the normal course of business, Vermilion may enter into fixed price arrangements to sell a portion of its production. Vermilion does not apply fair value accounting on these contracts as they were entered into and continue to be held for the sale of production in accordance with the Company's expected requirements. Vermilion does not obtain collateral or other security to support its financial derivatives as management reviews the creditworthiness of the counterparty prior to entering into a derivative contract.

The impact of Vermilion's derivative based risk management activities decreased the fund flows netback for the three and six month periods ended June 30, 2011 by \$3.26 per boe and \$2.29 per boe, respectively. This compares to an increase of \$1.01 per boe and \$0.47 per boe for the three and six month periods ended June 30, 2010. The decrease in the periods ended June 30, 2011 was associated with the stronger commodity prices where the prices for crude oil exceeded the ceiling on certain collars entered into for 2011.

ROYALTIES

(\$M except per boe and per mcf)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Crude oil & NGLs	\$ 12,298	\$ 9,403	\$ 24,037	\$ 19,458
Per boe	6.08	5.43	6.03	5.70
Natural gas	242	140	1,710	3,232
Per mcf	0.03	0.02	0.12	0.25
Royalties	\$ 12,540	\$ 9,543	\$ 25,747	\$ 22,690
Per boe	\$ 3.91	\$ 3.31	\$ 4.10	\$ 4.05

As a result of Vermilion's adoption of International Financial Reporting Standards ("IFRS"), Vermilion no longer includes Australian Petroleum Resource Rent Tax ("PRRT") within royalties. Under IFRS, Vermilion accounts for PRRT as an income tax and accordingly, royalty figures presented for both the current and prior periods in this MD&A and the accompanying financial statements exclude PRRT. Vermilion's previously published MD&A for the three and six months ended June 30, 2010 included PRRT of \$3.6 million and \$18.6 million respectively within royalties for that period. The prior period figures in the above table and below have been restated to reflect the reclassification of this amount to income taxes.

Consolidated royalties per boe for the three and six month periods ended June 30, 2011 were \$3.91 and \$4.10, respectively (three and six month periods ended June 30, 2010, \$3.31 and \$4.05, respectively). As a percentage of sales, royalties decreased for the three and six month periods ended June 30, 2011 to 4.5% and 5.1%, respectively (three and six month periods ended June 30, 2010, 5.6% and 6.7%, respectively).

Canadian royalties as a percentage of sales for the three and six month periods ended June 30, 2011 were 12.7% and 14.2%, respectively (three and six month periods ended June 30, 2010, 12.4% and 16.1%, respectively). Crude oil royalties as a percentage of sales decreased for the quarter and year to date periods from 20.2% to 16.7% and from 22.6% to 17.5%, respectively, as compared to the prior year due to a change in the royalty framework implemented in 2010 whereby royalties are levied on horizontal oil wells at a flat 5% rate for the first 50,000 to 100,000 bbls of production depending on well depth. Vermilion started to benefit from this royalty framework change during the second quarter of 2010 as it continued to drill and put its Cardium wells on production. Based on the depth of horizontal Cardium wells drilled thus far, the Company has received this reduced royalty rate on individual wells for up to the first 70,000 bbls of production. On a year to date basis, natural gas royalties as a percentage of sales have decreased to 5.3% from 8.0% year over year due to lower volumes and prices. For the three months ended June 30, 2011 natural gas royalties as a percentage of sales have increased slightly from 0.7% to 1.5% as a result of differing gas cost allowance recoveries booked in the second quarter of both years.

In France, the primary portion of the royalties levied is based on units of production and therefore is not subject to changes in commodity prices. Accordingly, as commodity prices were higher for the three and six month periods ended June 30, 2011 as compared to the same periods in 2010, royalties, as a percentage of sales, decreased to 5.8% from 6.6% for both the quarter and year to date periods.

Production in the Netherlands and Australia is not subject to royalties.

OPERATING EXPENSE

(\$M except per boe and per mcf)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Crude oil & NGLs	\$ 30,633	\$ 22,971	\$ 58,009	\$ 48,295
Per boe	15.14	13.27	14.54	14.15
Natural gas	10,102	9,660	20,574	20,671
Per mcf	1.42	1.40	1.49	1.58
Operating expense	\$ 40,735	\$ 32,631	\$ 78,583	\$ 68,966
Per boe	\$ 12.71	\$ 11.31	\$ 12.50	\$ 12.31

Consolidated operating expense was \$40.7 million or \$12.71 per boe and \$78.6 million or \$12.50 per boe, respectively for the three and six month periods ended June 30, 2011 (three and six month periods ended June 30, 2010, \$32.6 million or \$11.31 per boe and \$69.0 million or \$12.31 per boe, respectively).

Canadian operating expense for the three month period ended June 30, 2011 increased to \$13.4 million or \$11.89 per boe as compared to \$9.0 million or \$8.65 per boe for the same period in 2010 (six month period ended June 30, 2011 increased to \$26.0 million or \$11.63 per boe from \$18.8 million or \$9.07 per boe for the comparable period in the prior year). These increases are a result of chemical costs associated with Vermilion's Cardium wells coupled with higher levels of downhole intervention spending. The increased levels of spending were partially offset by higher volumes reducing the impact on a per boe basis.

France operating expense increased to \$11.5 million or \$15.06 per boe for the three month period ended June 30, 2011 as compared to \$10.3 million or \$13.39 per boe for the comparable period in 2010. With similar levels of production in the second quarter of 2011 versus the same period in the prior year, the increase in the per boe amount year over year is the result of higher wages and benefits as well as increased electricity costs. For the six month period ended June 30, 2011 spending increased slightly to \$21.3 million from \$21.2 million in the prior year with a decrease in per boe costs to \$13.82 from \$14.15 due to higher volumes.

Netherlands operating expense increased to \$4.0 million and \$8.4 million for the three and six month periods ended June 30, 2011, respectively, versus \$3.6 million and \$7.9 million for the comparable periods in the prior year. Higher levels of major project spending related to compressor maintenance and increased salary costs were partially offset by lower fuel and electricity costs. On a per boe basis, Netherlands operating expenses increased to \$7.65 for the three months ended June 30, 2011 as compared to \$7.50 for the same period in 2010 due to this higher level of spending partially offset by an increase in production volumes. For the six months ended June 30, 2011, Netherlands operating expenses decreased on a per boe basis to \$8.61 from \$9.88 due to higher volumes year over year.

Australian operating expense increased to \$11.8 million and \$22.9 million for the three and six month periods ended June 30, 2011, respectively as compared to \$9.7 million and \$21.1 million for the corresponding periods in the prior year. The increases in operating expense results from higher levels of diesel usage on the platform coupled with additional salary and supply vessel costs. Higher levels of production resulted in a decrease in operating expenses per boe to \$14.91 for both the three and six month periods ended June 30, 2011 versus \$16.36 for the three months ended June 30, 2010 and \$17.13 per boe for the six months ended June 30, 2010.

TRANSPORTATION EXPENSE

(\$M except per boe)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Transportation expense	\$ 5,966	\$ 6,901	\$ 12,050	\$ 13,850
Per boe	\$ 1.86	\$ 2.39	\$ 1.92	\$ 2.47

Transportation expense is a function of the point of legal transfer of the product and is dependent upon where the product is sold, product split, location of properties, as well as industry transportation rates that are driven by supply and demand of available transport capacity. For Canadian gas production, legal title transfers at the intersection of major pipelines whereas the majority of Vermilion's Canadian oil production is sold at the wellhead. In France, the majority of Vermilion's transportation expense is made up of shipping charges incurred in the Aquitaine Basin where oil production is transported by tanker from the Ambès terminal in Bordeaux to the refinery. In Australia, oil is sold at the Wandoo B Platform and in the Netherlands, gas is sold at the plant gate, resulting in no transportation expense relating to Vermilion's production in these countries.

Transportation expense includes the amount due under a ship or pay agreement related to the Corrib project. However, as there is a ceiling on the total payments due in relation to the associated pipeline, these expenses essentially represent a prepayment for future pipeline transportation services.

Transportation expense decreased during the three and six month periods ended June 30, 2011 compared to the same periods in 2010 primarily as a result of lower costs in France due to shipment timing and Ambès terminal costs.

GENERAL AND ADMINISTRATION EXPENSE

(\$M except per boe)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
General and administration expense	\$ 11,348	\$ 9,621	\$ 23,455	\$ 19,774
Per boe	\$ 3.54	\$ 3.34	\$ 3.73	\$ 3.53

General and administration expense for the three and six month periods ended June 30, 2011 was \$11.3 million and \$23.5 million, respectively (three and six month periods ended June 30, 2010, \$9.6 million and \$19.8 million, respectively). This increase is attributable to higher employee costs as Vermilion has increased its staffing levels in Canada to help support its Cardium program and identify future opportunities to generate long-term growth.

EQUITY BASED COMPENSATION EXPENSE

(\$M except per boe)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Equity based compensation expense	\$ 6,682	\$ 4,527	\$ 14,908	\$ 16,800
Per boe	\$ 2.08	\$ 1.57	\$ 2.37	\$ 3.00

Non-cash equity based compensation expense for the three and six month periods ended June 30, 2011 was \$6.7 million and \$14.9 million, respectively (three and six month periods ended June 30, 2010, \$4.5 million and \$16.8 million, respectively). This expense relates to the value attributable to long-term incentives granted to officers, employees and directors under the Vermilion Incentive Plan.

INTEREST EXPENSE

(\$M except per boe)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Interest expense	\$ 6,569	\$ 3,696	\$ 11,943	\$ 6,729
Per boe	\$ 2.05	\$ 1.28	\$ 1.90	\$ 1.20

Interest expense for the three and six month periods ended June 30, 2011 was \$6.6 million and \$11.9 million, respectively (three and six month periods ended June 30, 2010, \$3.7 million and \$6.7 million, respectively). Interest expense for the year to date period in 2011 has increased from the same period in 2010 due to higher average debt levels as well as the issuance of the senior notes in first quarter of 2011 due to the higher interest rate associated with those notes as compared to the cost of borrowings under the revolving credit facility.

DEPLETION, DEPRECIATION AND ACCRETION EXPENSES

(\$M except per boe)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Depletion and depreciation expenses	\$ 59,583	\$ 40,945	\$ 111,297	\$ 80,159
Per boe	\$ 18.59	\$ 14.20	\$ 17.71	\$ 14.31
Accretion expense	\$ 4,403	\$ 4,328	\$ 10,718	\$ 8,847
Per boe	\$ 1.37	\$ 1.50	\$ 1.71	\$ 1.58

Depletion and depreciation per boe for the three and six month periods ended June 30, 2011 was \$18.59 per boe and \$17.71 per boe, respectively (three and six month periods ended June 30, 2010, \$14.20 per boe and \$14.31 per boe, respectively). Depletion and depreciation rates for the three and six month periods ended June 30, 2011 have increased over the comparable period in 2010 due primarily to higher finding, development and acquisition costs incurred by Vermilion.

Accretion expense for the three and six month periods ended June 30, 2011 was \$1.37 per boe and \$1.71 per boe, respectively (three and six month periods ended June 30, 2010, \$1.50 per boe and \$1.58 per boe, respectively). The changes period over period were as a result of changes to the discount rates applied to the asset retirement obligations, which are adjusted on a quarterly basis.

TAXES

(\$M except per boe)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Current taxes before PRRT	\$ 35,668	\$ 18,040	\$ 61,974	\$ 28,013
PRRT	35,960	3,619	59,253	18,569
Current taxes	\$ 71,628	\$ 21,659	\$ 121,227	\$ 46,582
Per boe	\$ 22.35	\$ 7.51	\$ 19.29	\$ 8.32

Vermilion pays current taxes in France, the Netherlands and Australia. Corporate taxes in France and the Netherlands apply to taxable income after eligible deductions at a rate of approximately 35% and 45%, respectively. In Australia, current taxes include both corporate income taxes and PRRT. Corporate income taxes are applied at a rate of approximately 30% on taxable income after eligible deductions, which include PRRT. PRRT is a profit based tax applied at a rate of 40% on revenues less eligible expenditures (including operating expenses and capital expenditures).

Current taxes before PRRT for the three and six month periods ended June 30, 2011 were \$35.7 million and \$62.0 million, respectively (three and six month periods ended June 30, 2010, \$18.0 million and \$28.0 million, respectively). The increases are attributable to the higher year over year revenue associated with increased levels of production and stronger oil prices.

The year over year increase in PRRT reflects the impact of increases in Australian production and crude oil prices combined with reduced capital expenditures. As capital expenditures are deductible in determining the PRRT when incurred, the reduction of capital spending in Australia in 2011 versus the comparable periods in 2010 resulted in an increase in PRRT for both the three and six month periods in 2011. PRRT as a percentage of operating income for Australia was 41% and 40% for the three and six month periods ended June 30, 2011, respectively (three and six month periods ended June 30, 2010, 10% and 24%, respectively). The increase in PRRT as a percentage of operating income is due to lower capital expenditures occurring in both of the three and six month periods ended June 30, 2011 (\$4.5 million and \$6.9 million, respectively) compared to the three and six month periods ended June 30, 2010 (\$12.8 million and \$14.7 million, respectively).

As a function of the impact of Vermilion's Canadian tax pools, the Company does not presently pay current taxes in Canada.

FOREIGN EXCHANGE

(\$M except per boe)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Foreign exchange (gain) loss	\$ (2,370)	\$ 12,012	\$ (15,654)	\$ 34,340
Per boe	\$ (0.74)	\$ 4.17	\$ (2.49)	\$ 6.13

During the three and six month periods ended June 30, 2011, a combined realized and unrealized foreign exchange gain of \$2.4 million and \$15.7 million was recognized, respectively versus a \$12.0 million and \$34.3 million loss for the same periods in 2010. The foreign exchange gains in the three and six month periods in 2011 are comprised of a realized gain of \$0.3 million and \$0.4 million, respectively, and an unrealized gain of \$2.1 million and \$15.3 million, respectively. The changes in unrealized foreign exchange gains were the result of the translation of financial balances denominated in currencies other than the functional currency of Vermilion and its subsidiaries.

NET EARNINGS

Net earnings for the three and six month periods ended June 30, 2011 were \$81.4 million or \$0.90 per share and \$108.6 million or \$1.21 per share, respectively (three and six month periods ended June 30, 2010, \$49.8 million or \$0.62 per share and \$41.6 million or \$0.52 per share, respectively). The increase in earnings is largely related to the increase in revenues period over period partially offset by a loss on derivative instruments for the six months ended June 30, 2011.

SUMMARY OF QUARTERLY RESULTS

(\$M except per share)	IFRS					PREVIOUS GAAP		
	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q4/09	Q3/09
Petroleum and natural gas sales	\$ 278,297	\$ 229,740	\$ 216,426	\$ 172,253	\$ 169,545	\$ 169,581	\$ 180,544	\$ 150,183
Net earnings (loss)	\$ 81,249	\$ 27,193	\$ (21,809)	\$ 24,576	\$ 49,811	\$ (8,183)	\$ 122,900	\$ 17,834
Net earnings (loss) per share								
Basic	\$ 0.90	\$ 0.30	\$ (0.25)	\$ 0.29	\$ 0.62	\$ (0.10)	\$ 1.60	\$ 0.25
Diluted	\$ 0.89	\$ 0.30	\$ (0.25)	\$ 0.29	\$ 0.44	\$ (0.10)	\$ 1.59	\$ 0.25

LIQUIDITY AND CAPITAL RESOURCES

Vermilion's net debt as at June 30, 2011 was \$434.5 million compared to \$303.3 million as at December 31, 2010.

Long term debt was comprised of the following balances as at June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Revolving credit facility	\$ 147,017	\$ 302,558
Senior unsecured notes	\$ 220,906	\$ -
Total long-term debt	\$ 367,923	\$ 302,558

Revolving Credit Facility

At June 30, 2011, Vermilion had in place a bank credit facility totalling \$800 million. The facility, which matures in May 2014, is fully revolving up to the date of maturity. The facility is extendable from time to time, but not more than once per year, for a period not longer than three years, 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 repayable on the maturity date. This facility bears interest at a rate applicable to demand loans plus applicable margins.

The credit facilities are secured by various fixed and floating charges against the subsidiaries of Vermilion. Under the terms of the revolving credit facility, Vermilion must maintain a ratio of total bank borrowings less certain debts related to Corrib (defined as Consolidated Total Debt), to consolidated earnings before interest, income taxes, depreciation, accretion and other certain non-cash items of not greater than 4.0. In addition, Vermilion must maintain a ratio of consolidated total senior debt to consolidated earnings before interest, income taxes, depreciation, accretion and other certain non-cash items of not greater than 3.0. Consolidated total senior debt is defined as Consolidated Total Debt excluding unsecured and subordinated debt.

As at June 30, 2011, Vermilion is in compliance with its financial covenants.

Senior Unsecured Notes

On February 10, 2011, Vermilion issued \$225.0 million of senior unsecured notes at par. The notes bear interest at a rate of 6.5% per annum and will mature on February 10, 2016. As direct senior unsecured obligations of Vermilion, the notes rank pari passu with all other present and future unsecured and unsubordinated indebtedness of the Company.

Vermilion may, at its option, prior to February 10, 2014, redeem up to 35% of the notes with net proceeds of equity offerings by the Company at a redemption price equal to 106.5% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date. Subsequently, Vermilion may, on or after February 10, 2014, redeem all or part of the notes at fixed redemption prices, plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date. The notes were recognized at amortized cost and include the transaction costs directly related to the issuance.

RECLAMATION FUND

After an extensive review, Vermilion concluded that the reclamation fund assets would be more effectively employed supporting Vermilion's operations. In July 2010, the reclamation fund assets were liquidated and the proceeds were initially used to reduce outstanding bank indebtedness and will ultimately help support Vermilion's capital programs. Vermilion will fund future reclamation costs out of current resources as they become due, consistent with standard industry practice.

ASSET RETIREMENT OBLIGATIONS

As at June 30, 2011, Vermilion's asset retirement obligations were \$277.8 million compared to \$267.4 million as at December 31, 2010. The increase is largely attributable to additions from the wells drilled during the period, accretion and the impact of exchange rates on foreign currency denominated obligations. The increases were partially offset by changes in the discount rates applied to the obligations and amounts spent during the year to date period.

DIVIDENDS

Sustainability of Dividends

(\$M)	Three Months	Six Months	Year	Year
	Ended	Ended	Ended	Ended
	June 30, 2011	June 30, 2011	Dec 31, 2010	Dec 31, 2009 ¹
Cash flows from operating activities	\$ 61,930	\$ 188,547	\$ 421,282	\$ 230,316
Net earnings	\$ 81,429	\$ 108,622	\$ 44,395	\$ 185,498
Dividends declared	\$ 51,421	\$ 102,363	\$ 189,744	\$ 166,385
Excess of cash flows from operating activities over cash dividends declared	\$ 10,509	\$ 86,184	\$ 231,538	\$ 63,931
Excess (shortfall) of net earnings over cash dividends declared	\$ 30,008	\$ 6,259	\$ (145,349)	\$ 19,113

¹ Amounts presented under previous GAAP

Vermilion maintained monthly dividends at \$0.19 per share for the three and six month periods ended June 30, 2011 and declared dividends totalling \$51.4 million in the quarter compared to \$46.0 million for the same period in 2010.

Excess cash flows from operating activities and net earnings over cash dividends declared are used to fund capital expenditures, asset retirement obligations and debt repayments.

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

Over the next two years, the Corrib and Cardium projects will require a significant capital investment by Vermilion. As such, Vermilion's fund flows from operations may not be sufficient during this period to fund cash dividends, capital expenditures and asset retirement obligations. Vermilion currently intends to finance any shortfall primarily with debt.

Since Vermilion's conversion to a trust in January 2003, the distribution remained at \$0.17 per unit per month until it was increased to \$0.19 per unit per month in December 2007. Effective September 1, 2010, Vermilion converted to a dividend paying corporation and dividends have remained at \$0.19 per share per month.

SHAREHOLDERS' EQUITY

During the six month period ended June 30, 2011, 1,323,320 shares were issued pursuant to the dividend reinvestment plan and Vermilion's equity based compensation programs. Shareholders' capital increased by \$55.5 million as a result of the issuance of those shares.

As at June 30, 2011, there were 90,321,562 shares outstanding. As at August 3, 2011, there were 90,420,009 shares outstanding.

RISK MANAGEMENT

Vermilion is exposed to various market and operational risks.

For a detailed discussion of these risks, please see Vermilion's 2010 Annual Report which is available on SEDAR at www.sedar.com or on the Company's website at <http://www.vermilionenergy.com/ir/financialreports/financialreportscurrent.cfm>

CRITICAL ACCOUNTING ESTIMATES

Vermilion's financial and operating results contain estimates made by management in the following areas:

- i. Capital expenditures are based on estimates of projects in various stages of completion;
- ii. Revenues, royalties and operating expenses include accruals based on estimates of management;
- iii. Fair value of derivative instruments are based on estimates that are subject to the fluctuation of commodity prices and foreign exchange rates;
- iv. Depletion, depreciation and accretion are based on estimates of oil and gas reserves that Vermilion expects to recover in the future;
- v. Asset retirement obligations are based on estimates of future costs and the timing of expenditures;
- vi. The future recoverable value of capital assets and goodwill are based on estimates that Vermilion expects to realize; and
- vii. Equity based compensation expense is determined using accepted fair value approaches which rely on historical data and certain estimates made by management.

OFF BALANCE SHEET ARRANGEMENTS

Vermilion has certain lease agreements that are entered into in the normal course of operations. All leases are operating leases and accordingly no asset or liability value has been assigned in the balance sheet as of June 30, 2011.

Vermilion uses a variety of derivatives including puts, calls and forward purchase contracts to manage the risks associated with fluctuating commodity prices and exchange rates. Vermilion does not obtain collateral or other security to support its financial derivatives as Vermilion reviews the creditworthiness of the counterparty prior to entering into a derivative contract.

Vermilion has not entered into any guarantee or off balance sheet arrangements that would adversely impact Vermilion's financial position or results of operations.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in Vermilion's internal control over financial reporting that occurred during the period covered by this MD&A that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") TRANSITION

Adoption of IFRS

Vermilion has prepared its June 30, 2011 interim consolidated financial statements in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards", and with IAS 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board. Previously, Vermilion prepared its financial statements in accordance with Previous GAAP. The adoption of IFRS has not had a material impact on Vermilion's operations, strategic decisions, cash flow or capital expenditures. Vermilion's IFRS accounting policies are provided in Note 2 to the Interim consolidated financial statements. In addition, Note 20 to the interim consolidated financial statements presents reconciliations between Vermilion's 2010 Previous GAAP results and the 2010 IFRS results. The reconciliations include the Consolidated Balance Sheets as at June 30, 2010 and December 31, 2010, and Consolidated Statements of Net Earnings and Comprehensive Income (Loss), Changes in Shareholders' (Unitholders') Equity and Consolidated Statements of Cash Flows for the three and six month periods ended June 30, 2010 and for the year ended December 31, 2010. The following provides summary reconciliations of Vermilion's 2010 Previous GAAP and IFRS results. Detailed descriptions of the differences between IFRS and Previous GAAP are outlined in Notes 20 and 21 to the interim consolidated financial statements.

SUMMARY OF CHANGES IN NET EARNINGS AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010	Year Ended Dec 31, 2010
Net earnings and comprehensive income - Previous GAAP	\$ 44,027	\$ 86,535	\$ 111,263
Increase in equity based compensation expense	(463)	(7,429)	(6,406)
Decrease (increase) in loss on derivative instruments	1,647	524	(3,013)
Increase in foreign exchange loss	(21,875)	(63,848)	(61,091)
Decrease in accretion expense	73	216	250
Decrease in depletion and depreciation	16,006	29,193	69,783
Increase in deferred income tax expense	(4,438)	(3,907)	(23,663)
Goodwill impairment	-	-	(19,840)
Reversal of non-controlling interest - exchangeable shares	4,052	7,935	8,241
Remeasurement gain (loss) associated with exchangeable share liability	10,782	(7,591)	(31,129)
Net earnings - IFRS	49,811	41,628	44,395
Cumulative translation adjustments	(24,355)	(57,961)	(31,577)
Comprehensive income (loss) - IFRS	\$ 25,456	\$ (16,333)	\$ 12,818

SUMMARY OF CHANGES IN ROYALTY AND CURRENT TAX EXPENSES

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010	Year Ended Dec 31, 2010
(\$M except per boe)			
Royalty expense - Previous GAAP	\$ 13,162	\$ 41,259	\$ 83,509
Per boe	4.56	7.37	7.12
Reclassification of Australia PRRT from royalties to current taxes	(3,619)	(18,569)	(39,537)
Royalties - IFRS	\$ 9,543	\$ 22,690	\$ 43,972
Per boe	\$ 3.31	\$ 4.05	\$ 3.75

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010	Year Ended Dec 31, 2010
(\$M except per boe)			
Current tax expense - Previous GAAP	\$ 18,040	\$ 28,013	\$ 72,701
Per boe	6.25	5.00	6.20
Reclassification of Australia PRRT from royalties to current taxes	3,619	18,569	39,537
Current tax expense - IFRS	\$ 21,659	\$ 46,582	\$ 112,238
Per boe	\$ 7.51	\$ 8.32	\$ 9.57

SUMMARY OF CHANGES IN FINANCIAL METRICS

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010	Year Ended Dec 31, 2010
(\$M)			
Fund flows from operations - Previous GAAP	\$ 90,407	\$ 168,768	\$ 363,487
Reclassification of contingent consideration to operating activities from investing activities	(863)	(2,329)	(5,958)
Fund flows from operations - IFRS	\$ 89,544	\$ 166,439	\$ 357,529

	As At June 30, 2010	As At Dec 31, 2010
(\$M)		
Net debt - Previous GAAP	\$ 183,009	\$ 300,393
Reclassify current portion of deferred taxes to non-current	(2,846)	2,902
Adjustment to accrue for contingent consideration	2,623	-
Net debt - IFRS	\$ 182,786	\$ 303,295

NETBACKS (6:1)

	Three Months Ended June 30, 2011						Three Months Ended June 30, 2010		
	Oil & Natural			Oil & Natural			Total		
	NGLs \$/bbl	Gas \$/mcf	Total \$/boe	NGLs \$/bbl	Gas \$/mcf	Total \$/boe	Total \$/boe	Total \$/boe	Total \$/boe
Canada									
Price	\$ 95.70	\$ 4.00	\$ 54.04	\$ 90.43	\$ 4.00	\$ 51.66	\$ 42.30	\$ 44.27	
Realized hedging (loss) gain	(1.34)	(0.02)	(0.63)	(1.00)	(0.01)	(0.46)	1.95	0.88	
Royalties	(15.94)	(0.06)	(6.88)	(15.87)	(0.21)	(7.35)	(5.26)	(7.15)	
Transportation	(1.59)	(0.18)	(1.30)	(1.60)	(0.19)	(1.33)	(1.58)	(1.54)	
Operating costs	(15.96)	(1.49)	(11.89)	(15.44)	(1.49)	(11.63)	(8.65)	(9.07)	
Operating netback	\$ 60.87	\$ 2.25	\$ 33.34	\$ 56.52	\$ 2.10	\$ 30.89	\$ 28.76	\$ 27.39	
France									
Price	\$ 108.58	\$ 11.53	\$ 107.90	\$ 105.07	\$ 11.05	\$ 104.35	\$ 79.70	\$ 78.68	
Realized hedging (loss) gain	(6.13)	-	(6.03)	(4.07)	-	(3.99)	1.14	0.55	
Royalties	(6.30)	(0.26)	(6.22)	(6.13)	(0.24)	(6.04)	(5.27)	(5.24)	
Transportation	(2.96)	-	(2.90)	(3.04)	-	(2.99)	(3.68)	(3.73)	
Operating costs	(14.97)	(3.30)	(15.06)	(13.70)	(3.32)	(13.82)	(13.39)	(14.15)	
Operating netback	\$ 78.22	\$ 7.97	\$ 77.69	\$ 78.13	\$ 7.49	\$ 77.51	\$ 58.50	\$ 56.11	
Netherlands									
Price	\$ 97.30	\$ 9.42	\$ 56.91	\$ 94.78	\$ 8.97	\$ 54.19	\$ 37.43	\$ 37.99	
Operating costs	-	(1.29)	(7.65)	-	(1.45)	(8.61)	(7.50)	(9.88)	
Operating netback	\$ 97.30	\$ 8.13	\$ 49.26	\$ 94.78	\$ 7.52	\$ 45.58	\$ 29.93	\$ 28.11	
Australia									
Price	\$ 132.87	\$ -	\$ 132.87	\$ 116.52	\$ -	\$ 116.52	\$ 77.76	\$ 80.55	
Realized hedging (loss) gain	(6.46)	-	(6.46)	(4.70)	-	(4.70)	-	-	
Operating costs	(14.91)	-	(14.91)	(14.91)	-	(14.91)	(16.36)	(17.13)	
PRRT	(45.46)	-	(45.46)	(38.51)	-	(38.51)	(6.10)	(15.07)	
Operating netback	\$ 66.04	\$ -	\$ 66.04	\$ 58.40	\$ -	\$ 58.40	\$ 55.30	\$ 48.35	
Total Company									
Price	\$ 115.04	\$ 6.43	\$ 86.83	\$ 106.04	\$ 6.17	\$ 80.82	\$ 58.78	\$ 60.55	
Realized hedging (loss) gain	(5.12)	(0.01)	(3.26)	(3.58)	(0.01)	(2.29)	1.01	0.47	
Royalties	(6.08)	(0.03)	(3.91)	(6.03)	(0.12)	(4.10)	(3.31)	(4.05)	
Transportation	(1.47)	(0.42)	(1.86)	(1.53)	(0.43)	(1.92)	(2.39)	(2.47)	
Operating costs	(15.14)	(1.42)	(12.71)	(14.54)	(1.49)	(12.50)	(11.31)	(12.31)	
PRRT	(17.78)	-	(11.22)	(14.85)	-	(9.43)	(1.25)	(3.32)	
Operating netback	\$ 69.45	\$ 4.55	\$ 53.87	\$ 65.51	\$ 4.12	\$ 50.58	\$ 41.53	\$ 38.87	
General and administration			(3.54)			(3.73)	(3.34)	(3.53)	
Interest			(2.05)			(1.90)	(1.28)	(1.20)	
Realized foreign exchange gain			0.08			0.07	0.39	0.58	
Other income			(0.01)			-	-	-	
Current income taxes			(11.13)			(9.86)	(6.26)	(5.00)	
Fund flows netback			\$ 37.22			\$ 35.16	\$ 31.04	\$ 29.72	
Accretion			(1.37)			(1.71)	(1.50)	(1.58)	
Depletion and depreciation			(18.59)			(17.71)	(14.20)	(14.31)	
Future income taxes			1.56			4.92	3.11	3.56	
Other expense			(0.24)			(0.18)	(1.00)	(0.79)	
Unrealized foreign exchange (loss) gain			0.66			2.42	(4.56)	(6.71)	
Remeasurement of liability associated with exchangeable shares			-			-	3.74	(1.36)	
Unrealized gain (loss) on derivative instruments			8.25			(3.26)	2.19	1.90	
Equity based compensation			(2.08)			(2.37)	(1.57)	(3.00)	
Earnings netback			\$ 25.41			\$ 17.27	\$ 17.25	7.43	

The above table includes non-GAAP measures which may not be comparable to other companies. Please see "Non-GAAP Measures" for further discussion. 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.

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Vice Chairman, Realex Properties Corp.
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William F. Madison ^{2, 4, 5}
Sugar Land, Texas

Timothy R. Marchant ^{3, 4, 5}
Calgary, Alberta

¹ Chairman of the Board

² Audit Committee

³ Governance and Human Resources Committee

⁴ Health, Safety and Environment Committee

⁵ Independent Reserves Committee

ABBREVIATIONS

bbl(s)	barrel(s)
mbbls	thousand barrels
bbbls/d	barrels per day
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
boe	barrels of oil equivalent of natural gas and crude oil on the basis of one boe for six mcf of natural gas
mboe	thousand barrels of oil equivalent
mmboe	million barrels of oil equivalent
boe/d	barrels of oil equivalent per day
CBM	coalbed methane
NGLs	natural gas liquids
GJ/d	Gigajoules per day
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade
\$M	thousand dollars

OFFICERS AND KEY PERSONNEL

CANADA

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Executive Vice President Business Development

Curtis W. Hicks, C.A.
Executive Vice President & CFO

G. R. (Bob) Mac Dougall, P.Eng.
Executive Vice President & COO

Mona Jasinski, M.B.A., C.H.R.P.
Executive Vice President People

Raj C. Patel, P.Eng.
Vice President Marketing

Daniel Goulet, P.Eng.
Director Production and Operations

Cameron A. Hercus, MSc
Director Exploitation and New Growth

Dean N. Morrison, CFA
Director Investor Relations

Gerardo Rivera
Director Commercial

Robert (Bob) J. Engbloom, LL.B.
Corporate Secretary

Paul L. Beique
Investor Relations

EUROPE

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Vice President European Operations

David Burghardt, P.Eng.
Director Exploitation

Scott Ferguson, P.Eng.
Director European Operations

AUSTRALIA

Bruce D. Lake, P.Eng.
Managing Director
Vermilion Oil & Gas Australia Pty Ltd.

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The Bank of Nova Scotia
Calgary, Alberta

Canadian Imperial Bank of Commerce
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Alberta Treasury Branches
Calgary, Alberta

National Bank of Canada
Calgary, Alberta

Citibank N.A., Canadian Branch
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EVALUATION ENGINEERS

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Macleod Dixon LLP
Calgary, Alberta

TRANSFER AGENT

Computershare Trust Company of Canada

STOCK EXCHANGE LISTING

The Toronto Stock Exchange

Symbol: VET

US OTC

Symbol: VEMTF

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