Q1 2012

VERMILION ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2012

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 strategies and objectives;
- reserve quantities and the discounted present value of future net cash flows from such reserves;
- 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 expenses;
- royalty rates;
- 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 n 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;
- foreign currency exchange rates 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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A"), dated May 3, 2012, of Vermilion Energy Inc.'s ("Vermilion" or the "Company") operating and financial results as at and for the three months ended March 31, 2012 compared with the corresponding period in the prior year.

This discussion should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2012 and the audited consolidated financial statements for the year ended December 31, 2011 and 2010, together with 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 unaudited condensed consolidated interim financial statements for the three months ended March 31, 2012 and comparative information have been prepared in Canadian dollars, except where another currency has been indicated, and in accordance with IAS 34, "Interim financial reporting", as issued by the International Accounting Standards Board.

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 non-cash operating working capital. The most directly comparable GAAP measure is cash flows from operating activities.

Fund flows from operations (excluding the Corrib project) is the above amount, excluding transportation expense related to the Corrib project. Transportation expense related to the Corrib project are due under a ship or pay agreement and, 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.

Cash flows from operating activities as presented in Vermilion's consolidated statements of cash flows are reconciled to fund flows from operations below:

	Three Months Ended			% change	
($M)	March 31, 2012	Dec 31, 2011	March 31, 2011	Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Cash flows from operating activities	**124,887**	158,639	126,617		
Changes in non-cash operating working capital	**25,469**	(29,315)	(26,463)		
Asset retirement obligations settled	**766**	7,559	1,631		
Fund flows from operations	**151,122**	136,883	101,785	10%	48%

	Three Months Ended			% change	
($M)	March 31, 2012	Dec 31, 2011	March 31, 2011	Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Fund flows from operations	**151,122**	136,883	101,785		
Transportation expense related to the Corrib project	**2,001**	2,101	2,198		
Fund flows from operations (excluding the Corrib project)	**153,123**	138,984	103,983	10%	47%

"Acquisitions, including acquired working capital deficiency" is the sum of "Property acquisitions" as presented on Vermilion's consolidated statements of cash flows, plus any working capital deficiencies acquired as a result of those acquisitions. Management considers acquired working capital deficiencies to be an important element of a property acquisition.

Property acquisitions as presented in Vermilion's consolidated statements of cash flows is reconciled to acquisitions, including acquired working capital deficiency below:

($M)	Three Months Ended			% change	
	March 31, 2012	Dec 31, 2011	March 31, 2011	Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Property acquisitions	**106,184**	12,777	38,291		
Working capital deficiencies acquired from acquisitions	**4,098**	-	-		
Acquisitions, including acquired working capital deficiency	**110,282**	12,777	38,291	763%	188%

"Net debt" is the sum of long-term debt and working capital as presented in Vermilion's consolidated balance sheets. Net debt is used by management to analyze the financial position and leverage of Vermilion. The most directly comparable GAAP measure is long-term debt.

Long-term debt as presented in Vermilion's consolidated balance sheets is reconciled to net debt below:

($M)	As At	
	March 31, 2012	Dec 31, 2011
Long-term debt	**373,798**	373,436
Current liabilities	**493,465**	491,184
Current assets	**(337,232)**	(435,659)
Net debt	**530,031**	428,961

"Cash dividends per share" represents 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. Dividends declared is the most directly comparable GAAP measure to net dividends. Dividends declared as presented in Vermilion's consolidated statement of changes in shareholders' equity is reconciled to net dividends as follows:

($M)	Three Months Ended			% change	
	March 31, 2012	Dec 31, 2011	March 31, 2011	Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Dividends declared	**55,124**	53,871	50,942		
Issuance of shares pursuant to the dividend reinvestment plan	**(17,558)**	(16,802)	(12,976)		
Net dividends	**37,566**	37,069	37,966	1%	(1%)

"Total net dividends, capital expenditures 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", "Exploration and evaluation", and "Asset retirement obligations settled."

Total net dividends, capital expenditures and asset retirement obligations settled (excluding the Corrib project) is the above amount excluding drilling and development and asset retirement obligations settled relating to the Corrib project.

These measures are reviewed by management and are 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. These non-GAAP measures are comprised of the following GAAP measures:

($M)	Three Months Ended March 31, 2012	Dec 31, 2011	March 31, 2011	% change Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Dividends declared	**55,124**	53,871	50,942	2%	8%
Issuance of shares pursuant to the dividend reinvestment plan	**(17,558)**	(16,802)	(12,976)	4%	35%
Drilling and development	**87,896**	129,478	116,833	(32%)	(25%)
Exploration and evaluation	**6,464**	22,773	1,581	(72%)	309%
Asset retirement obligations settled	**766**	7,559	1,631	(90%)	(53%)
Total net dividends, capital expenditures and asset retirement obligations settled	**132,692**	196,879	158,011	(33%)	(16%)

($M)	Three Months Ended March 31, 2012	Dec 31, 2011	March 31, 2011	% change Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Total net dividends, capital expenditures and asset retirement obligations settled	**132,692**	196,879	158,011	(33%)	(16%)
Capital expenditures and asset retirement obligations settled related to the Corrib project	**(9,482)**	(13,869)	(9,983)	(32%)	(5%)
Total net dividends, capital expenditures and asset retirement obligations settled (excluding the Corrib project)	**123,210**	183,010	148,028	(33%)	(17%)

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

"Diluted shares outstanding" is the sum of shares outstanding at the period end plus outstanding awards under Vermilion's equity based compensation plan, based on current performance factor and forfeiture estimates.

Shares outstanding is reconciled to diluted shares outstanding below:

('000s of shares)	As At March 31, 2012	Dec 31, 2011	March 31, 2011
Shares outstanding	**96,838**	96,430	89,856
Potential shares issuable pursuant to equity based compensation plan	**2,719**	2,348	1,981
Diluted shares outstanding	**99,557**	98,778	91,837

OPERATIONAL ACTIVITIES

Canada

In Canada, Vermilion participated in the drilling of 27 wells (19.2 net) during the first quarter of 2012. These wells included 17 (15.8 net) operated Cardium horizontal wells and 7 (2.3 net) non-operated Cardium wells. At the end of the first quarter of 2012, 64 operated (56.6 net) Cardium wells were on production and 45 (14.6 net) non-operated wells were on production. While drilling and completions activity has remained robust during the first quarter of 2012, Vermilion currently plans for a moderate slowdown in activity and production additions during the second quarter of 2012 as a result of some completions and tie-ins being deferred until the summer months when spring break-up is complete.

France

In France, Vermilion continued with an active workover and recompletion program in addition to assuming operatorship of production associated with the recently acquired working interests in the Paris and Aquitaine basins. Vermilion continues to work toward full integration of the acquired assets and the identification of future optimization and infill drilling opportunities.

Netherlands

In the Netherlands, operating activities in the first quarter of 2012 were focused on facility maintenance, permitting and site construction for the 2012 and 2013 drilling campaigns. Vermilion currently plans to commence a two well development program in late 2012. Vermilion also continues to evaluate the results of the 2011 drilling program, including facilities, infrastructure and permitting requirements associated with related production additions currently anticipated in 2013. The final phases of permitting and facilities construction were also underway for the fourth and final well of the 2009 drilling campaign, De Hoeve-1, and the Company currently anticipates bringing the well on production by mid-2012.

Australia

Vermilion continued preparations and reservoir studies in anticipation of initiating a two to three well drilling campaign in late 2012. Due to the late timing of the 2012 drilling campaign, production from the wells is not anticipated to occur until early 2013. An active cyclone season during the first quarter of 2012, resulted in minor facility maintenance and repairs during the first quarter in addition to the complete shut-in of Australian production volumes for a total of eight days.

PRODUCTION

	Three Months Ended			% change	
	March 31, 2012	Dec 31, 2011	March 31, 2011	Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Canada					
Crude oil & NGLs (bbls/d)	**8,876**	7,837	5,086	13%	75%
Natural gas (mmcf/d)	**41.83**	43.96	43.31	(5%)	(3%)
Total (boe/d)	**15,848**	15,163	12,304	5%	29%
% of consolidated	**40%**	41%	36%		
France					
Crude oil (bbls/d)	**10,270**	7,819	8,411	31%	22%
Natural gas (mmcf/d)	**3.48**	0.94	1.02	270%	241%
Total (boe/d)	**10,850**	7,976	8,582	36%	26%
% of consolidated	**28%**	22%	25%		
Netherlands					
NGLs (bbls/d)	**72**	66	46	9%	57%
Natural gas (mmcf/d)	**35.08**	34.58	29.96	1%	17%
Total (boe/d)	**5,919**	5,829	5,039	2%	17%
% of consolidated	**15%**	16%	15%		
Australia					
Crude oil (bbls/d)	**6,648**	7,686	8,309	(14%)	(20%)
% of consolidated	**17%**	21%	24%		
Consolidated					
Crude oil & NGLs (bbls/d)	**25,866**	23,408	21,852	11%	18%
% of consolidated	**66%**	64%	64%		
Natural gas (mmcf/d)	**80.39**	79.48	74.29	1%	8%
% of consolidated	**34%**	36%	36%		
Total (boe/d)	**39,265**	36,654	34,234	7%	15%

Average total production in Canada of 15,848 boe/d during the first quarter of 2012 represented an increase of 5% compared to 15,163 boe/d in fourth quarter of 2011 and 29% as compared to 12,304 boe/d in the first quarter of the prior year. The increase in Vermilion's Canadian production volumes was attributable to quarter over quarter and year over year growth in Cardium related production volumes partially offset by a purposeful decline in Vermilion's conventional Canadian natural gas production. Production results to date continue to support Vermilion's expectations regarding the low risk, dependable nature of planned production additions associated with Vermilion's Cardium related drilling and completions program. At the end of the first quarter of 2012, Vermilion's high netback oil and liquids production volumes represented approximately 56% of total Canadian production as compared to 41% at the end of the first quarter of 2011.

Production in France averaged 10,850 boe/d in the first quarter of 2012, a 36% increase from fourth quarter 2011 production of 7,976 boe/d. The significant increase was largely attributable to incremental production volumes associated with Vermilion's acquisition of certain working interests in the Paris and Aquitaine basins which closed during the first quarter of 2012. Following the acquisition, Vermilion's France production remains predominantly weighted toward crude production indexed to Dated Brent at approximately 95%.

Average production volumes of 5,919 boe/d in the Netherlands during the first quarter of 2012 were relatively flat as compared to fourth quarter of 2011 production of 5,829 boe/d. The year over year increase was 17% as compared to production of 5,039 boe/d in the first quarter of 2011. The year over year increase was largely attributable to the tie-in of production volumes from Vermilion's Vinkega-1 discovery well. Production from the Vlieland formation of Vinkega-1 was brought on in May 2011 and was later replaced by production from the Rotliegend formation following completion of unitization negotiations in late December 2011. Netherlands production is expected to see continued increases from new drilling, although the timing of those increases is less predictable due to the extensive production permitting process.

Australia production averaged 6,648 boe/d during the first quarter of 2012, compared to 7,686 boe/d in the fourth quarter of 2011 and 8,309 boe/d in the first quarter of 2011. The decrease in production reflects natural declines and downtime associated with seasonal cyclone activity, which resulted in approximately eight days of production shut-ins. Production volumes during the first quarter of 2011 reflected the strong, flush performance of three wells drilled and brought on production in November 2010. Vermilion expects to sustain annual average production between 6,000 boe/d and 8,000 boe/d over the next few years with two to three wells drilling campaigns every other year. The next planned drilling campaign is scheduled for late 2012.

FINANCIAL REVIEW

During the three months ended March 31, 2012, Vermilion generated fund flows from operations of $151.1 million compared to $136.9 million for the three months ended December 31, 2011 and $101.8 million for the three months ended March 31, 2011. The increase in fund flows from operations for the first quarter of 2012 versus both the three months ended December 31, 2011 and March 31, 2011 were the result of increased average production volumes from continued Cardium development in Canada, incremental volumes associated with Vermilion's acquisition of certain working interests in the Paris and Aquitaine basins in France and additional volumes associated with the tie-in of Vermilion's Vinkega-1 discovery well in the Netherlands. In addition, Vermilion continued to benefit in the first quarter of 2012 from its exposure to Dated Brent linked pricing for 59% of its production as Dated Brent traded at a US $15.56 per bbl premium to WTI.

Vermilion's net debt was $530.0 million at March 31, 2012 (December 31, 2011 - $429.0 million) representing approximately 0.9 times annualized fund flows from operations. The increase in net debt was the result of a decrease in cash and cash equivalents pursuant to the payment of $106.1 million for the acquisition of certain working interests in six producing fields located in the Paris and Aquitaine basins in France. Long-term debt remained relatively constant at $373.8 million at March 31, 2012 (December 31, 2011 - $373.4 million).

For the three months ended March 31, 2012, total net dividends, capital expenditures and asset retirement obligations settled as a percentage of fund flows from operations (excluding the Corrib project) was 80% (March 31, 2011 - 142%). The year over year changes in this ratio relates primarily to improved fund flows from operations and overall reduced capital expenditures.

COMMODITY PRICES

	Three Months Ended			% change	
	March 31, 2012	Dec 31, 2011	March 31, 2011	Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Average reference prices					
WTI (US $/bbl)	**102.93**	94.06	94.10	9%	9%
Edmonton sweet index (US $/bbl)	**92.44**	95.49	89.41	(3%)	3%
Dated Brent (US $/bbl)	**118.49**	109.31	104.97	8%	13%
AECO ($/mcf)	**2.15**	3.17	3.76	(32%)	(43%)
Netherlands oil-linked gas price ($/mcf)	**10.18**	10.57	8.78	(4%)	16%
Netherlands oil-linked gas price (€/mcf)	**7.75**	7.67	6.51	1%	19%
Average realized prices ($/boe)					
Canada	**55.84**	59.03	49.21	(5%)	13%
France	**104.84**	112.71	100.83	(7%)	4%
Netherlands	**59.08**	62.95	51.08	(6%)	16%
Australia	**156.43**	108.00	99.23	45%	58%
Consolidated	**86.90**	81.60	74.57	6%	17%
Production mix (% of production)					
% priced with reference to WTI	**23%**	21%	15%		
% priced with reference to AECO	**18%**	20%	21%		
% priced with reference to Dated Brent	**59%**	59%	64%		

Reference prices

During the three months ended March 31, 2012, the average WTI reference price increased by 9%, the average Edmonton sweet index increased by 3% and the average Dated Brent reference price increased by 13% as compared to the same period in the prior year.

Overall, international crude oil prices were generally higher during the first quarter of 2012 as compared to the fourth quarter of 2011. This was a result of increased demand for crude oil in Asia and supply disruptions stemming from geopolitical events in the Middle East and North Africa. WTI and the Edmonton sweet index continued to trade at a significant discount to Dated Brent due to increased production in North America and the subsequent pipeline capacity constraints in the U.S. Mid-West. The pipeline capacity constraints impacting the transportation of crude oil from the U.S. Mid-West to the U.S. Gulf Coast has resulted in a US $10.49 discount of the Edmonton sweet index to WTI.

The AECO average reference price declined 32% from the fourth quarter of 2011 to the first quarter of 2012. Factors contributing to this price decline include excess supply of natural gas in North America, unseasonably warm weather in North America affecting winter heating demand and the resulting increase in inventory levels.

The 5% appreciation of the Canadian dollar against the Euro from the fourth quarter of 2011 to the first quarter of 2012 led to a modest decrease in the Netherlands realized gas price.

Realized pricing

The realized price of Vermilion's production of crude oil in Canada is directly linked to WTI but is subject to market conditions in Western Canada. These market conditions can lead to fluctuations in the pricing differential, as reflected by the Edmonton sweet index price above. The realized price of Vermilion's production of NGLs in Canada is based on differentials to product specific trading hubs in the U.S. The realized price of Vermilion's production of natural gas in Canada is based on the AECO spot price in Alberta.

Vermilion's production of crude oil in France and Australia is priced with reference to Dated Brent.

The price of Vermilion's natural gas production in the Netherlands is based on pricing established by GasTerra, a statutory entity which purchases all natural gas produced by Vermilion in the Netherlands. The oil-linked gas price in the Netherlands is calculated using a trailing average of Dated Brent and the gas prices from European trading hubs.

Average realized prices in Vermilion's international jurisdictions will differ from their corresponding average reference prices due to a number of factors; including the timing of the sale of production, differences in the quality of production and point of settlement. In Canada, average realized prices are impacted by the production mix of crude oil, NGLs and natural gas. As noted above, the quarter over quarter decrease in average realized prices in Canada was due to the decreased price of the Edmonton sweet index price and lower AECO reference price for natural gas.

On a consolidated basis, for the three months ended March 31, 2012, crude oil and NGL production represented approximately 66% of total production (three months ended March 31, 2011 - 64%). Production priced with reference to crude oil (WTI and Dated Brent) represented approximately 82% of total production for the three months ended March 31, 2012 (three months ended March 31, 2011, 79%). This increase in relative crude oil and NGL production, along with the increase in the reference prices of WTI and Dated Brent, resulted in an increase to the consolidated average realized price from $74.57 per boe for the three months ended March 31, 2011 to $86.90 per boe for the three months ended March 31, 2012.

CAPITAL EXPENDITURES AND PROPERTY ACQUISITIONS

	Three Months Ended		
By category ($M)	**March 31, 2012**	**Dec 31, 2011**	**March 31, 2011**
Land	**6,667**	18,073	2,995
Seismic	**799**	3,731	1,765
Drilling and completion	**54,858**	74,287	63,083
Production equipment and facilities	**24,755**	47,283	43,751
Recompletions	**2,645**	3,377	5,266
Other	**4,636**	5,500	1,554
Total capital expenditures	**94,360**	152,251	118,414
Property acquisitions	**106,184**	12,777	38,291
Total capital expenditures and acquisitions	**200,544**	165,028	156,705

Three Months Ended

By classification ($M)	March 31, 2012	Dec 31, 2011	March 31, 2011
Drilling and development	**87,896**	129,478	116,833
Exploration and evaluation	**6,464**	22,773	1,581
Total capital expenditures	**94,360**	152,251	118,414
Property acquisitions	**106,184**	12,777	38,291
Total capital expenditures and acquisitions	**200,544**	165,028	156,705

	Three Months Ended		
By country ($M)	March 31, 2012	Dec 31, 2011	March 31, 2011
Canada	**71,982**	110,147	120,328
France	**111,842**	12,663	18,430
Netherlands	**2,570**	17,172	5,538
Australia	**4,544**	11,205	2,426
Ireland	**9,606**	13,841	9,983

Capital expenditures for the three months ended March 31, 2012 were lower relative to both the three months ended December 31, 2011 and March 31, 2011. The decrease in capital expenditures from the fourth quarter of 2011 to the first quarter of 2012 was the result of decreased land purchases in Canada as well as decreased drilling and completion expenditures and decreased expenditures on production equipment and facilities in all jurisdictions.

In the three months ended March 31, 2012 versus the same period in the prior year, decreases in capital expenditures were primarily the result of decreased drilling and completion expenditures as well as decreased capital expenditures on production equipment and facilities. These decreases were offset by increased land purchases in Canada.

The increase in property acquisitions in the first quarter of 2012 was primarily due to the January 19, 2012 acquisition of certain working interests in six producing fields located in the Paris and Aquitaine basins in France. Vermilion paid cash of $106.1 million upon closing of the acquisition.

PETROLEUM AND NATURAL GAS SALES

	Three Months Ended			% change	
By product ($M except per boe and per mcf)	March 31, 2012	Dec 31, 2011	March 31, 2011	Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Crude oil & NGLs	**268,291**	227,166	190,368	18%	41%
Per boe	**113.99**	105.49	96.80	8%	18%
Natural gas	**42,197**	48,006	39,372	(12%)	7%
Per mcf	**5.77**	6.57	5.89	(12%)	(2%)
Petroleum and natural gas sales	**310,488**	275,172	229,740	13%	35%
Per boe	**86.90**	81.60	74.57	6%	17%

	Three Months Ended			% change	
By country ($M except per boe)	March 31, 2012	Dec 31, 2011	March 31, 2011	Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Canada	**80,526**	82,342	54,499	(2%)	48%
Per boe	**55.84**	59.03	49.21	(5%)	13%
France	**103,511**	82,707	77,874	25%	33%
Per boe	**104.84**	112.71	100.83	(7%)	4%
Netherlands	**31,820**	33,753	23,165	(6%)	37%
Per boe	**59.08**	62.95	51.08	(6%)	16%
Australia	**94,631**	76,370	74,202	24%	28%
Per boe	**156.43**	108.00	99.23	45%	58%

Vermilion's consolidated petroleum and natural gas sales for the three months ended March 31, 2012 increased relative to the three months ended December 31, 2011 by $35.3 million. This increase was the result of higher consolidated production in the first quarter of 2012 versus the fourth quarter of 2011, which contributed an increase of $24.0 million. Increases in Dated Brent crude oil pricing, which was partially offset by lower Edmonton sweet index crude oil and AECO natural gas pricing quarter over quarter, resulted in a net increase of $11.3 million.

Vermilion's consolidated petroleum and natural gas sales for the three months ended March 31, 2012 were higher than the comparable periods in 2011 by $80.7 million. This increase was the result of higher consolidated production in the first quarter of 2012 versus the same period in 2011, which contributed an increase of $40.0 million, combined with increased crude oil pricing quarter over quarter, which was partially offset by lower AECO natural gas pricing, resulting in a further increase of $40.7 million.

CRUDE OIL INVENTORY

Vermilion carries an inventory of crude oil in France and Australia, which reflects a timing difference between production and sales. Crude oil inventories decreased in the first quarter of 2012 versus the fourth quarter of 2011 due to a decrease in Australia's inventory of 221,690 bbls, partially offset by an increase in France's inventory of 36,466 bbls.

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

Ending inventory balance	Q1 2012	Q4 2011	Q3 2011	Q2 2011
France (bbls)	**223,421**	186,955	209,637	215,132
France ($M)[1]	**8,075**	6,518	7,152	8,525
Australia (bbls)	**208**	221,898	171,736	62,397
Australia ($M)[1]	**7**	7,367	6,058	2,250
Total (bbls)	**223,629**	408,853	381,373	277,529
Total ($M)[1]	**8,082**	13,885	13,210	10,775

[1] Represents the cost of the produced crude oil including operating costs, depletion and certain royalties.

DERIVATIVE INSTRUMENTS

	Three Months Ended			% change	
($M except per boe)	March 31, 2012	Dec 31, 2011	March 31, 2011	Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Realized loss on derivative instruments	**5,718**	6,115	3,955	(6%)	45%
Per boe	**1.60**	1.81	1.28	(12%)	25%

The impact of Vermilion's derivative based risk management activities decreased the fund flows netback for the three months ended March 31, 2012 by $1.60 per boe. This compares to a decrease of $1.28 per boe for the same period in 2011. The higher cost of risk management activities in the three months ended March 31, 2012 was associated with stronger crude oil prices that exceeded the ceiling on certain collars entered into for 2012.

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 in fair value in net earnings at each reporting period. During the normal course of business, Vermilion may enter into fixed price arrangements to sell a portion of its production or purchase commodities for operational use. 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 or operational use 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 its counterparties prior to entering into derivative contracts.

The following table summarizes Vermilion's outstanding financial derivative positions as at March 31, 2012:

Risk Management	Funded Cost (US $/bbl)	bbls/d	Strike Price(s) US $/bbl
Collar - WTI			
January 2012 to June 2012	1.00	500	78.00 - 97.25
January 2012 to June 2012	1.00	500	78.00 - 101.80
January 2012 to June 2012	1.00	500	82.00 - 116.20
January 2012 to June 2012	1.00	500	82.00 - 116.25
January 2012 to June 2012	1.00	350	82.00 - 121.75
January 2012 to June 2012	1.00	250	82.00 - 124.05
January 2012 to June 2012	1.00	250	82.00 - 123.00
January 2012 to December 2012	1.00	250	82.00 - 119.45
July 2012 to September 2012	1.00	500	82.00 - 125.75
July 2012 to September 2012	1.00	250	82.00 - 128.50
July 2012 to September 2012	1.00	500	85.00 - 145.75
July 2012 to December 2012	1.00	500	78.00 - 104.15
July 2012 to December 2012	1.00	500	82.00 - 99.35
July 2012 to December 2012	1.00	500	82.00 - 115.10
October 2012 - December 2012	0.50	500	85.00 - 138.25
Collar - DATED BRENT			
January 2012 to June 2012	1.00	750	82.00 - 105.60
January 2012 to June 2012	1.00	750	82.00 - 104.80
January 2012 to June 2012	1.00	750	82.00 - 106.10
January 2012 to June 2012	1.00	500	95.00 - 120.65
January 2012 to June 2012	1.00	350	95.00 - 123.05
January 2012 to December 2012	1.00	1,000	82.00 - 113.40
January 2012 to December 2012	1.00	500	82.00 - 115.50
January 2012 to December 2012	1.00	500	82.00 - 130.75
July 2012 to September 2012	1.00	500	97.00 - 126.50
July 2012 to September 2012	1.00	250	92.00 - 127.80
July 2012 to December 2012	1.00	1,000	82.00 - 126.55
July 2012 to December 2012	1.00	1,000	82.00 - 126.05
October 2012 - December 2012	1.00	500	92.00 - 134.25
October 2012 - December 2012	1.00	500	97.00 - 132.20
Put - WTI			
January 2012 to June 2012	1.28	200	82.00
Put - DATED BRENT			
January 2012 to December 2012	4.46	600	83.00
January 2012 to December 2012	4.90	600	83.00
January 2012 to December 2012	4.49	600	83.00
January 2012 to December 2012	4.39	600	83.00
January 2012 to December 2012	3.65	500	83.00

An up to date listing of Vermilion's outstanding derivative instruments is available on Vermilion's website at www.vermilionenergy.com/ir/hedging.cfm

ROYALTIES

By product ($M except per boe and per mcf)	Three Months Ended March 31, 2012	Dec 31, 2011	March 31, 2011	% change Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Crude oil & NGLs	**14,241**	14,233	11,739	-	21%
Per boe	**6.05**	6.61	5.97	(8%)	1%
Natural gas	**211**	772	1,468	(73%)	(86%)
Per mcf	**0.03**	0.11	0.22	(73%)	(86%)
Royalties	**14,452**	15,005	13,207	(4%)	9%
Per boe	**4.04**	4.45	4.29	(9%)	(6%)
% of petroleum and natural gas sales	**4.7%**	5.5%	5.7%		

By country ($M except per boe)	Three Months Ended March 31, 2012	Dec 31, 2011	March 31, 2011	% change Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Canada	**8,969**	10,176	8,675	(12%)	3%
Per boe	**6.22**	7.29	7.83	(15%)	(21%)
% of petroleum and natural gas sales	**11.1%**	12.4%	15.9%		
France	**5,483**	4,829	4,532	14%	21%
Per boe	**5.55**	6.58	5.87	(16%)	(5%)
% of petroleum and natural gas sales	**5.3%**	5.8%	5.8%		

Consolidated royalties per boe for the three months ended March 31, 2012 were $4.04 as compared to $4.29 for the three months ended March 31, 2011. As a percentage of sales, royalties for the three months ended March 31, 2012 were 4.7% as compared to 5.7% for the same quarter in the prior year. Royalties for the fourth quarter of 2011 were $4.45 per boe which represented 5.5% of consolidated petroleum and natural gas sales.

In Canada, royalties as a percentage of sales for the three months ended March 31, 2012 was 11.1% as compared to 15.9% for the comparative period of the prior year. Canadian royalties as a percentage of sales for the fourth quarter of 2011 was 12.4%. Crude oil and NGL royalties as a percentage of sales decreased for the current quarter to 12.2% from 18.6% for the first quarter of 2011 due to lower royalty rates levied on initial production volumes from Vermilion's horizontal Cardium wells. As Vermilion's production mix has continued to shift towards these types of wells, the Company's crude oil and NGL royalty expense as a percentage of revenue has declined. Canadian natural gas royalties as a percentage of sales decreased to 1.8% for the quarter ended March 31, 2012 as compared to 9.3% for the same period of the prior year as a result of significantly lower natural gas pricing year over year.

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 crude oil prices were higher during the first quarter of 2012 as compared to the first quarter of 2011, royalties as a percentage of sales decreased to 5.3% for the current quarter from 5.8% for the same quarter of the prior year.

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

OPERATING EXPENSE

By product ($M except per boe and per mcf)	Three Months Ended March 31, 2012	Dec 31, 2011	March 31, 2011	% change Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Crude oil & NGLs	**36,866**	29,249	27,377	26%	35%
Per boe	**15.66**	13.58	13.92	15%	13%
Natural gas	**10,687**	11,264	10,471	(5%)	2%
Per mcf	**1.46**	1.54	1.57	(5%)	(7%)
Operating	**47,553**	40,513	37,848	17%	26%
Per boe	**13.31**	12.01	12.28	11%	8%

By country ($M except per boe)	Three Months Ended March 31, 2012	Dec 31, 2011	March 31, 2011	% change Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Canada	**14,267**	11,970	12,582	19%	13%
Per boe	**9.89**	8.58	11.36	15%	(13%)
France	**15,102**	11,381	9,724	33%	55%
Per boe	**15.30**	15.51	12.59	(1%)	22%
Netherlands	**4,109**	5,141	4,401	(20%)	(7%)
Per boe	**7.63**	9.59	9.71	(20%)	(21%)
Australia	**14,075**	12,021	11,141	17%	26%
Per boe	**23.27**	17.00	14.90	37%	56%

Consolidated operating expense was $47.6 million or $13.31 per boe for the three months ended March 31, 2012 as compared to $40.5 million or $12.01 per boe for the fourth quarter of 2011. Consolidated operating expense for the first quarter of 2011 was $37.8 million or $12.28 per boe.

In Canada, first quarter operating expense of $14.3 million was higher than both the $12.0 million for the fourth quarter of 2011 and the $12.6 million for the first quarter of 2011. The increase from the fourth quarter is associated with more maintenance and repair activity as well as additional downhole work occurring in the first quarter of 2012. On a per boe basis, slightly higher volumes partially offset the impact of this increased level of operating activity. On a year over year basis, the increase in Canadian operating expense is attributable to the previously noted higher levels of maintenance and repair activity coupled with the costs associated with these increased volumes. As a result of higher volumes, operating expense per boe decreased in the current quarter as compared to the first quarter of 2011.

In France, first quarter operating expense of $15.1 million was higher than the fourth quarter 2011 expense of $11.4 million due to higher levels of downhole intervention work. Fourth quarter 2011 downhole work in France was minimal following a maintenance campaign that occurred earlier in that year. France operating expense for the first quarter of 2012 also included $1.2 million in unplanned costs associated with retrieving a pump following scheduled maintenance on a non-operated well. Higher volumes quarter over quarter mitigated the impact of higher operating expense on a per boe basis. The increase in operating costs for the first quarter of 2012 as compared to the same period in the prior year is associated with the timing of downhole intervention work, higher volumes and the previously noted pump retrieval costs. Higher volumes year over year partially offset the increase in operating expense on a per boe basis.

In the Netherlands, first quarter operating expense of $4.1 million was lower than the fourth quarter 2011 expense of $5.1 million as the prior quarter included a scheduled maintenance program at the Garijp Treatment Centre. Similar volumes in the first quarter of 2012 as compared to the previous quarter coupled with the lower expense resulted in a decrease in operating expense on a per boe basis. Operating expense for the first quarter of 2012 was relatively consistent with the same period in the prior year; however, higher volumes resulted in a decrease per boe.

In Australia, first quarter operating expense increased to $14.1 million from the previous quarter's expense of $12.0 million due to higher facility maintenance activity. Operating expense for the first quarter of 2012 was higher than the operating expense of $11.1 million for the same period in the prior year due to a higher proportion of days where diesel, rather than produced gas, was used to operate the offshore platform as well as increased facilities maintenance costs and the corresponding personnel and equipment transportation costs to and from the platform. Operating expense per boe for the first quarter of 2012 was higher than the operating expense per boe for both the previous quarter and the first quarter of 2011 due to these increased costs coupled with lower volumes.

TRANSPORTATION EXPENSE

By country ($M except per boe)	Three Months Ended March 31, 2012	Dec 31, 2011	March 31, 2011	% change Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Canada	**2,044**	1,972	1,515	4%	35%
Per boe	**1.42**	1.41	1.37	1%	4%
France	**2,648**	2,955	2,371	(10%)	12%
Per boe	**2.68**	4.03	3.07	(33%)	(13%)
Ireland	**2,001**	2,101	2,198	(5%)	(9%)
Transportation	**6,693**	7,028	6,084	(5%)	10%
Per boe	**1.87**	2.08	1.97	(10%)	(5%)

Transportation expense for the three months ended March 31, 2012 were lower than the three months ended December 31, 2011. This decrease was primarily the result of slightly lower Ambès terminal costs in France resulting from Vermilion assuming operatorship of the terminal during the first quarter and the impact of pipeline inspection and training costs that are reflected in the fourth quarter of 2011. On a per boe basis, transportation costs are similarly lower for the three months ended March 31, 2012 as compared to the three months ended December 31, 2011 and March 31, 2011 due to the lower costs and increased crude oil production volumes in France, including the impact of additional volumes resulting from the France acquisition.

Transportation expense for Ireland relates to 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.

OTHER EXPENSE (INCOME)

($M except per boe)	Three Months Ended March 31, 2012	Dec 31, 2011	March 31, 2011	% change Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Other expense (income)	**7,983**	(787)	352	(1,114%)	2,168%
Per boe	**2.24**	(0.24)	0.12	(1,033%)	1,767%

For the three months ended March 31, 2012, other expense was comprised primarily of $8.5 million relating to transfer taxes to be paid to regulatory authorities in France pursuant to the acquisition of certain working interests in six producing fields located in the Paris and Aquitaine basins in France.

GENERAL AND ADMINISTRATION EXPENSE

($M except per boe)	Three Months Ended March 31, 2012	Dec 31, 2011	March 31, 2011	% change Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
General and administration	**10,148**	9,753	12,107	4%	(16%)
Per boe	**2.84**	2.89	3.93	(2%)	(28%)

General and administration expense of $10.1 million for the first quarter of 2012 was lower than the expense of $12.1 million for the same period of the prior year due to a decrease in consultant costs as well as an increase in the allocation of directly attributable labour costs to capital projects. Compared with the fourth quarter of 2011, general and administration expense increased by $0.4 million due to slightly lower third party recoveries.

EQUITY BASED COMPENSATION EXPENSE

($M except per boe)	Three Months Ended March 31, 2012	Dec 31, 2011	March 31, 2011	% change Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Equity based compensation	**10,055**	16,150	8,226	(38%)	22%
Per boe	**2.81**	4.79	2.67	(41%)	5%

Equity based compensation expense relates to non-cash compensation expense attributable to long-term incentives granted to directors, officers and employees under the Vermilion Incentive Plan. The expense is recognized over the vesting period of the award based on the grant date fair value of awards, adjusted for the ultimate number of awards that actually vest as determined by the Company's achievement of a number of performance conditions.

Equity based compensation expense for the three months ended March 31, 2012 was lower than the prior quarter. The fourth quarter of 2011 expense included additional expense related to performance condition adjustments for the full year ended 2011. The expense for the three months ended March 31, 2012 was higher than the expense in the three months ended March 31, 2011 as the 2012 expense reflected the revised performance condition adjustments from the fourth quarter of 2011.

INTEREST EXPENSE

	Three Months Ended			% change	
($M except per boe)	**March 31, 2012**	**Dec 31, 2011**	**March 31, 2011**	**Q1/12 vs. Q4/11**	**Q1/12 vs. Q1/11**
Interest expense	**6,101**	6,365	5,374	(4%)	14%
Per boe	**1.71**	1.89	1.74	(10%)	(2%)

Interest expense decreased during the three months ended March 31, 2012 as compared to the three months ended December 31, 2011, primarily due to decreased borrowings under Vermilion's revolving credit facility as a result of reduced capital expenditures as well as payments made to reduce the amount owing on the revolving credit facility following the November 28, 2011 equity issuance. Interest expense increased during the three months ended March 31, 2012 as compared to the three months ended March 31, 2011, primarily due to increased debt levels associated with the issuance of senior unsecured notes in February of 2011.

DEPLETION AND DEPRECIATION, ACCRETION, IMPAIRMENTS AND GAIN ON ACQUISITIONS

	Three Months Ended			% change	
($M except per boe)	**March 31, 2012**	**Dec 31, 2011**	**March 31, 2011**	**Q1/12 vs. Q4/11**	**Q1/12 vs. Q1/11**
Depletion and depreciation	**75,848**	64,895	51,714	17%	47%
Per boe	**21.23**	19.24	16.78	10%	27%
Accretion	**5,238**	5,793	6,315	(10%)	(17%)
Per boe	**1.47**	1.72	2.05	(15%)	(28%)
Impairments	**65,800**	64,400	-	2%	100%
Per boe	**18.42**	19.10	-	(4%)	100%
Gain on acquisitions	**(45,309)**	-	-	100%	100%
Per boe	**(12.68)**	-	-	100%	100%

Depletion and depreciation on a per boe basis increased in the three months ended March 31, 2012 as compared to both the three months ended December 31, 2011 and March 31, 2011. The higher expenses are primarily due to the result of higher finding, development and acquisition costs incurred, which resulted from increased liquids development in Canada and the acquisition of six producing fields in France.

Accretion expense on a per boe basis has decreased in the three months ended March 31, 2012 as compared to both the three months ended December 31, 2011 and March 31, 2012. The lower accretion expense was primarily due to a reduction in the discount rates used to calculate accretion expense in the jurisdictions in which Vermilion operates.

The impairment losses in both the three months ended March 31, 2012 and the three months ended December 31, 2011 relate to impairment losses recorded on Vermilion's conventional deep gas and shallow coal bed methane natural gas plays. These impairment charges were the result of significant declines in the forward pricing assumptions for natural gas in Canada.

The gain on acquisitions in the three months ended March 31, 2012 relates to Vermilion's acquisitions of certain working interests in the Paris and Aquitaine basins in France. The gain on acquisitions arose as a result of an increase in the fair value of the acquired petroleum and natural gas reserves from the time when the acquisition was negotiated to the acquisition date. The increase in fair value resulted from a change in the underlying commodity price forecasts used to determine the fair value of the acquired reserves. As a result, a gain of $45.3 million was recognized on this acquisition.

TAXES

By classification ($M except per boe)	Three Months Ended March 31, 2012	Dec 31, 2011	March 31, 2011	% change Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Current taxes before PRRT	**32,364**	33,446	26,306	(3%)	23%
Per boe	**9.06**	9.92	8.54	(9%)	6%
PRRT	**27,269**	21,541	23,293	27%	17%
Per boe	**7.63**	6.39	7.56	19%	1%
Current taxes	**59,633**	54,987	49,599	8%	20%
Per boe	**16.69**	16.31	16.10	2%	4%

By country ($M except per boe)	Three Months Ended March 31, 2012	Dec 31, 2011	March 31, 2011	% change Q1/12 vs. Q4/11	Q1/12 vs. Q1/11
Canada	**442**	(783)	329	156%	34%
Per boe	**0.31**	(0.56)	0.30	155%	3%
France	**12,895**	17,738	15,982	(27%)	(19%)
Per boe	**13.06**	24.17	20.69	(46%)	(37%)
Netherlands	**9,057**	6,431	2,757	41%	229%
Per boe	**16.82**	11.99	6.08	40%	177%
Australia	**37,239**	31,601	30,531	18%	22%
Per boe	**61.56**	44.69	40.83	38%	51%

Vermilion pays current taxes in France, the Netherlands and Australia. Corporate income taxes in France and the Netherlands apply to taxable income after eligible deductions at a rate of approximately 34% 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, which includes operating expenses and capital expenditures.

Current taxes before PRRT increased in the three months ended March 31, 2012 as compared to the three months ended March 31, 2011. This increase is attributable to higher year over year taxable income associated with overall stronger commodity prices and generally higher production.

PRRT increased in the three months ended March 31, 2012 as compared to the three months ended December 31, 2011 due to higher crude oil prices and reduced capital expenditures, which are deductible in determining PRRT. On a percentage of operating income basis, PRRT was 34% of operating income for the three months ended March 31, 2012, lower than the percentage of 38% for the three months ended March 31, 2011 due to higher capital expenditures versus the same period in the prior year.

As a function of the impact of Vermilion's Canadian tax pools, the Company does not presently pay current taxes in Canada. The Canadian segment includes holding companies that pay current taxes in foreign jurisdictions.

FOREIGN EXCHANGE

($M except per boe)	Three Months Ended March 31, 2012	Dec 31, 2011	March 31, 2011
Unrealized foreign exchange (gain) loss	**(5,247)**	24,974	(13,104)
Per boe	**(1.47)**	7.41	(4.25)
Realized foreign exchange loss (gain)	**820**	(1,252)	(180)
Per boe	**0.23**	(0.37)	(0.06)
Foreign exchange (gain) loss	**(4,427)**	23,722	(13,284)
Per boe	**(1.24)**	7.04	(4.31)

Foreign exchange gains and losses are comprised of both unrealized and realized gains and losses. Unrealized foreign exchange losses are the result of translating monetary assets and liabilities held in non-functional currencies to the respective functional currencies of Vermilion and its subsidiaries. Realized gains and losses are the result of foreign exchange fluctuations on transactions conducted in non-functional currencies.

As a result of Vermilion's international operations, Vermilion conducts business in currencies other than the Canadian dollar and has monetary assets and liabilities (including cash, receivables, payables, derivative assets and liabilities, and intercompany loans) denominated in such currencies. Vermilion's exposure to foreign currencies include the U.S. Dollar, the Euro and the Australian Dollar.

In the three months ended March 31, 2012, the unrealized foreign exchange gain primarily resulted from the impact of the depreciation of the Canadian dollar against the Euro for Euro denominated loans made by Vermilion to its subsidiaries and the impact of the appreciation of the Canadian dollar against the U.S. Dollar on the amount due pursuant to acquisition.

Changes quarter over quarter in realized foreign exchange gains and losses are the result of changes in the volumes of transactions and daily fluctuations in foreign currencies.

NET EARNINGS

For the three months ended March 31, 2012, Vermilion had net earnings of $65.1 million or $0.67 per share (three months ended March 31, 2011, net earnings of $27.2 million or $0.30 per share).

The significant increase year over year in net earnings is primarily the result of overall higher production, generally favourable commodity prices, and gain on acquisitions partially offset by impairments recorded on Vermilion's Canadian natural gas producing properties and acquisition related costs.

SUMMARY OF RESULTS

	Three Months Ended							
($M except per share)	**Mar 31, 2012**	**Dec 31, 2011**	**Sept 30, 2011**	**Jun 30, 2011**	**Mar 31, 2011**	**Dec 31, 2010**	**Sept 30, 2010**	**Jun 30, 2010**
Petroleum and natural gas sales	**310,488**	275,172	248,361	278,297	229,740	216,426	172,253	169,545
Net earnings (loss)	**65,094**	(30,243)	64,442	81,429	27,193	(21,809)	24,576	49,811
Net earnings (loss) per share								
Basic	**0.67**	(0.32)	0.71	0.90	0.30	(0.25)	0.29	0.62
Diluted	**0.66**	(0.32)	0.70	0.89	0.30	(0.25)	0.29	0.44

The fluctuations in Vermilion's petroleum and natural gas sales and net earnings (loss) from quarter to quarter are primarily caused by variations in production volumes, petroleum and natural gas prices and the impact of royalties and tax legislation in the jurisdictions that Vermilion operates in. In addition, petroleum and natural gas prices may impact gains and losses on derivative instruments and may result in impairment charges or the reversal of impairment charges incurred in previous periods.

In the first quarter of 2012, petroleum and natural gas sales was higher than the fourth quarter of 2011 due to overall higher production volumes and the impact of favorable Dated Brent commodity prices. The increase in petroleum and natural gas sales, in addition to gain on acquisitions, were primarily responsible for the quarter over quarter increase in net earnings.

The three months ended March 31, 2012 had higher petroleum and natural gas sales leading to higher net revenues than the same period in the prior year. This was primarily caused by overall higher production volumes and favorable commodity prices in the three months ended March 31, 2012 as compared to the same period in the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Vermilion's net debt as at March 31, 2012 was $530.0 million compared to $429.0 million as at December 31, 2011.

Long-term debt was comprised of the following balances as at March 31, 2012 and December 31, 2011:

	As At	
($M)	**March 31, 2012**	**Dec 31, 2011**
Revolving credit facility	**152,226**	152,086
Senior unsecured notes	**221,572**	221,350
Total long-term debt	**373,798**	373,436

Revolving Credit Facility

At March 31, 2012, Vermilion had in place a bank revolving credit facility totalling $800 million. The facility, which matures in May 2014, is fully revolving up to the date of maturity. The amount available to Vermilion under this facility is reduced by outstanding letters of credit associated with Vermilion's operations totaling $7.4 million as at March 31, 2012 (December 31, 2011 - $3.7 million).

As at March 31, 2012, Vermilion was 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 initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost using an effective interest rate of 7.1%.

ASSET RETIREMENT OBLIGATIONS

As at March 31, 2012, Vermilion's asset retirement obligations were $341.4 million compared to $310.5 million as at December 31, 2011.

The increase in asset retirement obligations is largely attributable to accretion and additions from new wells drilled and acquired during 2012. These increases were partially offset by an overall increase in the discount rates applied to the obligations.

DIVIDENDS

	Three Months Ended	Year Ended
($M)	**March 31, 2012**	**Dec 31, 2011**
Cash flows from operating activities	**124,887**	447,092
Net earnings	**65,094**	142,821
Dividends declared	**55,124**	207,846
Excess of cash flows from operating activities over dividends declared	**69,763**	239,246
Excess (shortfall) of net earnings over dividends declared	**9,970**	(65,025)

Vermilion maintained monthly dividends at $0.19 per share and declared dividends totalling $55.1 million for three months ended March 31, 2012.

Excess cash flows from operating activities over 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 ratio of dividends to fund flows from operations. During low price commodity cycles, Vermilion will initially maintain dividends and allow the 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.

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.

Over the next three years, the Corrib, Cardium and other exploration and development activities 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 will evaluate its ability to finance any shortfalls with debt, an issuance of equity or by reducing some or all categories of expenditures to ensure that total expenditures do not exceed available funds.

SHAREHOLDERS' EQUITY

During the three months ended March 31, 2012, Vermilion issued 408,290 shares pursuant to the dividend reinvestment plan and Vermilion's equity based compensation programs. Shareholders' capital increased by $18.2 million as a result of the issuance of those shares.

As at March 31, 2012, there were 96,838,425 shares outstanding. As at May 3, 2012, there were 98,033,847 shares outstanding.

CORRIB PROJECT

Vermilion holds an 18.5% non-operating interest in the offshore Corrib gas field located off the northwest coast of Ireland. Production from Corrib is expected to increase Vermilion's volumes by approximately 54 mmcf (9,000 boe/d) once the field reaches peak production. Vermilion acquired its 18.5% working interest in the project on July 30, 2009. The project comprises seven offshore wells, both offshore and onshore pipeline segments as well as a significant natural gas processing facility. At the time of the acquisition most of the key components of the project, with the exception of the onshore pipeline, were either complete or in the latter stages of development. Vermilion's interest was acquired for cash consideration of $136.8 million with subsequent capital expenditures to March 31, 2012 of $253.4 million, primarily related to completion of the natural gas processing facility, sub-surface well work, and permitting and preparations for construction of the onshore pipeline. Furthermore, pursuant to the terms of the acquisition agreement, Vermilion will make an additional payment to the vendor of US $135 million at the end of 2012. In 2011, approvals and permissions were granted for the onshore gas pipeline and construction has commenced with tunnelling expected to begin in the fourth quarter of 2012. Vermilion expects to continue significant capital investment on this project over the next two years and currently expects to achieve initial gas production from this field in late 2014.

RISK MANAGEMENT

Vermilion is exposed to various market and operational risks.

For a detailed discussion of these risks, please see Vermilion's 2011 Annual Report, which is available on SEDAR at www.sedar.com or on the Company's website at www.vermilionenergy.com.

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, operating expenses, and current taxes 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 exploration and evaluation assets 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 March 31, 2012.

Vermilion uses a variety of derivatives including puts and calls to manage the risks associated with fluctuating commodity prices. 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 materially 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.

ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

Unless otherwise noted, as of January 1, 2013, Vermilion will be required to adopt the following standards and amendments as issued by the IASB. The adoption of the following standards is not expected to have a material impact on Vermilion's consolidated financial statements:

IFRS 9 "Financial Instruments"
As of January 1, 2015, Vermilion will be required to adopt IFRS 9, as part of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

IFRS 10 "Consolidated Financial Statements"
IFRS 10 replaces Standing Interpretations Committee 12, "Consolidation - Special Purpose Entities" and the consolidation requirements of IAS 27 "Consolidated and Separate Financial Statements". The new standard replaces the existing risk and rewards based approaches and establishes control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities"
IFRS 12 provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosures require information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity's interest in subsidiaries and joint arrangements.

Vermilion is currently assessing the impact of the adoption of the following standards on the consolidated financial statements:

IFRS 11 "Joint Arrangements"
IFRS 11 replaces IAS 31 "Interests in Joint Ventures". The new standard focuses on the rights and obligations of an arrangement, rather than its legal form. The standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted.

IFRS 13 "Fair Value Measurement"
IFRS 13 provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when another IFRS requires or permits the item to be measured at fair value, with limited exceptions.

NETBACKS (6:1)

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

	Three Months Ended March 31, 2012			Three Months Ended March 31, 2011
	Oil & NGLs $/bbl	Natural Gas $/mcf	Total $/boe	Total $/boe
Canada				
Price	89.56	2.15	**55.84**	49.21
Realized hedging loss	(0.79)	-	**(0.44)**	(0.28)
Royalties	(10.92)	(0.04)	**(6.22)**	(7.83)
Transportation	(1.75)	(0.17)	**(1.42)**	(1.37)
Operating	(10.44)	(1.53)	**(9.89)**	(11.36)
Operating netback	65.66	0.41	**37.87**	28.37
France				
Price	107.67	9.13	**104.84**	100.83
Realized hedging loss	(5.26)	-	**(4.98)**	(1.98)
Royalties	(5.80)	(0.21)	**(5.55)**	(5.87)
Transportation	(2.83)	-	**(2.68)**	(3.07)
Operating	(15.36)	(2.35)	**(15.30)**	(12.59)
Operating netback	78.42	6.57	**76.33**	77.32
Netherlands				
Price	108.25	9.75	**59.08**	51.08
Operating	-	(1.29)	**(7.63)**	(9.71)
Operating netback	108.25	8.46	**51.45**	41.37
Australia				
Price	156.43	-	**156.43**	99.23
Realized hedging loss	(0.27)	-	**(0.27)**	(2.83)
Operating	(23.27)	-	**(23.27)**	(14.90)
PRRT [1]	(45.08)	-	**(45.08)**	(31.15)
Operating netback	87.81	-	**87.81**	50.35
Total Company				
Price	113.99	5.77	**86.90**	74.57
Realized hedging loss	(2.43)	-	**(1.60)**	(1.28)
Royalties	(6.05)	(0.03)	**(4.04)**	(4.29)
Transportation	(1.73)	(0.36)	**(1.87)**	(1.97)
Operating	(15.66)	(1.46)	**(13.31)**	(12.28)
PRRT [1]	(11.59)	-	**(7.63)**	(7.56)
Operating netback	76.53	3.92	**58.45**	47.19
General and administration			**(2.84)**	(3.93)
Interest expense			**(1.71)**	(1.74)
Realized foreign exchange (loss) gain			**(0.23)**	0.06
Other (expense) income			**(2.31)**	0.01
Current income taxes [1]			**(9.06)**	(8.54)
Fund flows netback			**42.30**	33.05
Accretion			**(1.47)**	(2.05)
Depletion and depreciation			**(21.23)**	(16.78)
Impairments			**(18.42)**	-
Gain on acquisitions			**12.68**	-
Deferred income taxes			**7.96**	8.41
Unrealized other income (expense)			**0.07**	(0.13)
Unrealized foreign exchange gain			**1.47**	4.25
Unrealized loss on derivative instruments			**(2.33)**	(15.24)
Equity based compensation			**(2.81)**	(2.67)
Earnings netback			**18.22**	8.84

[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.

VERMILION ENERGY

Corporate Information

DIRECTORS

Larry J. Macdonald [1, 2, 3, 4, 5]
Chairman & CEO, Point Energy Ltd.
Calgary, Alberta

W. Kenneth Davidson [2, 3]
Toronto, Ontario

Lorenzo Donadeo
Calgary, Alberta

Claudio A. Ghersinich [2, 4, 5]
Executive Director, Carrera Investments Corp.
Calgary, Alberta

Joseph F. Killi [2, 3]
Chairman, Parkbridge Lifestyle Communities Inc.
Vice Chairman, Realex Properties Corp.
Calgary, Alberta

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
bbls/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
AECO	the daily average Alberta natural gas price as traded on the Natural Gas Exchange
$M	thousand dollars
$MM	million dollars
PRRT	Petroleum Resource Rent Tax, a profit based tax levied on petroleum projects in Australia
GAAP	Canadian Generally Accepted Accounting Principles or, alternatively, IFRS
IFRS	International Financial Reporting Standards or, alternatively, GAAP

OFFICERS AND KEY PERSONNEL

CANADA

Lorenzo Donadeo, P.Eng.
President & Chief Executive Officer

John D. Donovan, F.C.A.
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

Terry Hergott
Vice President Marketing

Raj C. Patel, P.Eng.
Vice President Marketing
(Retiring Effective May 31, 2012)

Daniel Goulet, P.Eng.
Director Production and Operations

Cameron A. Hercus, MSc
Director Exploitation and New Growth

Dean N. Morrison, CFA
Director Investor Relations

Mike Prinz
Director Information Technology

Gerardo Rivera
Director Strategy and Portfolio Management

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

EUROPE

Peter Sider, P.Eng.
Vice President European Operations

David Burghardt, P.Eng.
Director Exploitation

AUSTRALIA

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

AUDITORS

Deloitte & Touche LLP
Calgary, Alberta

BANKERS

The Toronto-Dominion Bank
Calgary, Alberta

Bank of Montreal
Calgary, Alberta

BNP Paribas (Canada)
Toronto, Ontario

Royal Bank of Canada
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

National Bank of Canada
Calgary, Alberta

Citibank N.A., Canadian Branch
Calgary, Alberta

EVALUATION ENGINEERS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL

Norton Rose Canada 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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