Q3 2011

VERMILION ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE NINE MONTHS ENDED SEPTEMBER 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;
- 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;
- 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;
- 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 November 3, 2011 of Vermilion Energy Inc.'s ("Vermilion" or the "Company") operating and financial results as at and for the three and nine months ended September 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 three and nine months ended September 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 the 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 shares, shareholders and dividends although for the pre-conversion period such items were 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 non-cash 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:

	Three Months Ended		Nine Months Ended	
($M)	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Cash flows from operating activities	$ 99,906	$ 106,575	$ 288,453	$ 294,091
Changes in non-cash operating working capital	12,194	(14,586)	33,488	(36,475)
Asset retirement obligations settled	4,269	939	15,512	1,751
Fund flows from operations	$ 116,369	$ 92,928	$ 337,453	$ 259,367

"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. Long-term debt, which is the most directly comparable GAAP measure, is reconciled to net debt below:

($M)	As At Sept 30, 2011	As At Dec 31, 2010	As At Sept 30, 2010
Long-term debt	$ 409,096	$ 302,558	$ 249,147
Current liabilities	333,817	340,934	269,358
Current assets	(275,546)	(340,197)	(280,553)
Net debt	$ 467,367	$ 303,295	$ 237,952

"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. Dividends declared is the most directly comparable GAAP measure to net dividends.

	Three Months Ended		Nine Months Ended	
($M)	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Dividends declared	$ 51,612	$ 47,583	$ 153,975	$ 139,080
Issuance of shares pursuant to the dividend reinvestment plan	(15,219)	(10,524)	(42,279)	(27,357)
Net dividends	$ 36,393	$ 37,059	$ 111,696	$ 111,723

"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 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:

	Three Months Ended		Nine Months Ended	
($M)	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Dividends declared	$ 51,612	$ 47,583	$ 153,975	$ 139,080
Issuance of shares pursuant to the dividend reinvestment plan	(15,219)	(10,524)	(42,279)	(27,357)
Drilling and development of petroleum and natural gas properties	89,332	96,451	281,749	310,560
Exploration and evaluation of petroleum and natural gas properties	45,449	10,542	56,780	16,187
Withdrawals from reclamation fund	-	-	-	(812)
Asset retirement obligations settled	4,269	939	15,512	1,751
Total net dividends, capital expenditures and asset retirement obligations settled	$ 175,443	$ 144,991	$ 465,737	$ 439,409

"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 plans, based on current performance factor and forfeiture estimates.

"Adjusted basic weighted average shares outstanding" is different from the most directly comparable GAAP figure 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 been 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 more meaningful information.

"Diluted adjusted weighted average shares outstanding" is the sum of diluted weighted average shares outstanding as presented on the consolidated statements of net earnings and comprehensive income plus the weighted average amount of exchangeable shares and equity based compensation awards outstanding for the period, if those instruments were considered to be anti-dilutive in the calculation of diluted net earnings per share.

These measures are reconciled to the relevant GAAP measures below:

(Number of shares)	As At Sept 30, 2011	As At Sept 30, 2010
Shares outstanding	90,675,152	88,651,035
Potential shares issuable pursuant to equity based compensation plans	2,139,493	1,542,809
Diluted shares outstanding	92,814,645	90,193,844

	Nine Months Ended	
(Number of shares)	Sept 30, 2011	Sept 30, 2010
Basic weighted average shares outstanding	89,954,939	81,241,924
Shares issuable pursuant to exchangeable shares outstanding	-	6,743,994
Adjusted basic weighted average shares outstanding	89,954,939	87,985,918

	Nine Months Ended	
(Number of shares)	Sept 30, 2011	Sept 30, 2010
Diluted weighted average shares outstanding	91,241,324	81,241,924
Weighted average impact of shares issuable on conversion of exchangeable shares, if anti-dilutive	-	6,743,994
Weighted average impact of shares issuable on equity based compensation plans, if anti-dilutive	-	706,411
Diluted adjusted weighted average shares outstanding	91,241,324	88,692,329

OPERATIONAL ACTIVITIES

Canada

In Canada, Vermilion drilled 14 (11.7 net) operated Cardium wells during the third quarter of 2011 and participated in the drilling of seven (1.9 net) partner wells. A total of 10 gross operated wells were fracture stimulated and six gross wells were brought on production during the quarter. At the end of the third quarter, 28 (24.1 net) operated and 29 (10.2 net) non-operated Cardium wells were on production. Vermilion anticipates the drilling of between 14 and 16 additional gross operated Cardium wells during the fourth quarter of 2011 and expects to end 2011 with between 55 and 60 net wells on production and have aggregate production volumes in excess of 6,000 boe/d. Installation of several pipelines to transport Cardium production in the Drayton Valley region was completed and construction and commissioning of the 15,000 bbls/d oil processing facility was finished during the third quarter and the facility was brought into service effective August 2, 2011. Wet weather in the West Pembina area reduced fracture stimulation activity in July and August. Drilling operations were only impacted for the month of July.

France

In France, Vermilion completed workovers on three (3 net) wells during the third quarter of 2011 in the Cazaux and Chaunoy oil fields. Vermilion ramped up its well repair activity, including pump repair and replacement, which drove operating costs higher for the third quarter of 2011.

Netherlands

Vermilion initiated a four (2.3 net) well drilling program in the Netherlands with two (1.4 net) wells drilled during the third quarter. Vermilion anticipates drilling the remaining two (0.9 net) wells and completing testing operations during the fourth quarter of 2011. Vermilion continued ongoing partner negotiations related to production from the Rotliegend zone of the Vinkega-1 well in the Netherlands. Protracted unitization negotiations have resulted in a deferral of production, originally anticipated in September 2011. The Company currently expects to start-up production from the Rotliegend zone early in 2012.

Australia

In Australia, Vermilion continued preparatory work and signed a rig contract for a two to three well drilling program in 2012. Production at Wandoo was shut-in for approximately six days during the third quarter as a result of planned maintenance activities.

PRODUCTION

	Three Months Ended Sept 30, 2011				Nine Months Ended Sept 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	5,831	42.94	12,987	38	5,378	43.17	12,573	36
France	7,946	0.97	8,108	23	8,208	0.96	8,368	24
Netherlands	64	33.15	5,589	16	55	32.31	5,440	16
Australia	7,992	-	7,992	23	8,330	-	8,330	24
Total production	21,833	77.06	34,676	100	21,971	76.44	34,711	100

	Three Months Ended Sept 30, 2010				Nine Months Ended Sept 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	4,205	42.17	11,233	36	3,984	44.45	11,392	37
France	8,542	1.19	8,741	28	8,283	0.86	8,426	27
Netherlands	46	30.32	5,099	16	38	27.58	4,635	15
Australia	6,225	-	6,225	20	6,610	-	6,610	21
Total production	19,018	73.68	31,298	100	18,915	72.89	31,063	100

Average production in Canada increased modestly to 12,987 boe/d during the third quarter of 2011 compared to 12,426 boe/d in the second quarter of 2011. Production additions from our Cardium program served to more than offset natural declines and volumes used in the commissioning of the oil processing facility in Drayton Valley. Production was 16% higher compared to third quarter of 2010 production of 11,233 boe/d. The increase was primarily attributable to production increases from the Cardium program offset by natural declines. Of more significance in today's commodity environment, crude oil and natural gas liquids production now represents nearly 45% of Canadian production as compared to 37% in the third quarter of 2010, reflecting our increasing leverage to liquids production in Canada. Canadian liquids production is expected to show continued growth in the fourth quarter of 2011 as Vermilion significantly increases Cardium oil production toward an anticipated 2011 exit rate of more than 6,000 boe/d.

Recorded average production in France of 8,108 boe/d in the third quarter of 2011 compared to 8,419 boe/d in the second quarter of 2011. Production was negatively impacted by operational downtime. Production is expected to remain reasonably stable as a result of Vermilion's active work over and well repair programs.

Production in the Netherlands averaged 5,589 boe/d in the third quarter of 2011 as compared to 5,682 boe/d in the second quarter of 2011. Third quarter production was negatively impacted by both unplanned outages and planned downtime for maintenance activities. Protracted unitization negotiations related to production from the Rotliegend zone of the Vinkega-1 well have resulted in a deferral of production, originally anticipated in September 2011. Based on the current state of negotiations, the Company currently expects Rotliegend production early in 2012.

Australia production averaged 7,992 boe/d in the third quarter of 2011, a decrease of approximately 8% compared to 8,692 boe/d in the second quarter of 2011 primarily attributable to approximately six days of downtime. Vermilion expects to sustain annual average production at between 8,000 and 8,500 boe/d in 2011.

FINANCIAL REVIEW

During the three and nine months ended September 30, 2011, Vermilion generated fund flows from operations of $116.4 million and $337.5 million, respectively. For the same period in 2010, Vermilion generated fund flows from operations of $92.9 million and $259.4 million, respectively. The respective increases in fund flows from operations of $23.4 million and $78.1 million resulted primarily from increased revenue associated with stronger commodity prices and higher average production volumes. The GAAP measure, cash flows from operating activities decreased to $99.9 million and $288.5 million for the three and nine months ended September 30, 2011, respectively, from $106.6 million and $294.1 million for the three and nine months ended September 30, 2010. The decreases in cash flow from operating activities was primarily driven by an increase in asset retirement obligations settled and decreases in the impact of changes of non-cash operating working capital in 2011 as compared with the same period in 2010.

During the three and nine months ended September 30, 2011, the price of WTI crude oil averaged US$89.76 per bbl and US$95.48 per bbl, respectively (three and nine months ended September 30, 2010 US$76.20 per bbl and US$77.65 per bbl, respectively). During the three and nine months ended September 30, 2011, the price of Dated Brent crude oil averaged US$113.46 per bbl and US$111.93 per bbl, respectively (three and nine months ended September 30, 2010 US$76.86 per bbl and US$77.13 per bbl, respectively).

For the three and nine months ended September 30, 2011, the AECO price for gas averaged $3.66 per mcf and $3.76 per mcf, respectively (three and nine months ended September 30, 2010, $3.54 per mcf and $4.13 per mcf, respectively).

For the three and nine months ended September 30, 2011, the price of natural gas in the Netherlands was $9.78 (€7.07) per mcf and $9.41 (€6.84) per mcf, respectively (three and nine months ended September 30, 2010, $7.86 (€5.85) per mcf and $7.18 (€5.28) per mcf, respectively).

Vermilion's net debt was $467.4 million at September 30, 2011 (December 31, 2010 - $303.3 million) representing approximately 100% of third quarter annualized fund flows from operations. Net debt increased primarily as a function of the increase in long-term debt and the decrease in cash and cash equivalents, both of which were used to fund capital expenditures. Vermilion's long-term debt at September 30, 2011 was $409.1 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 resource play development in Canada, including the acquisition of additional Cardium acreage.

For the three and nine months ended September 30, 2011, total net dividends, capital expenditures 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 132% and 122%, respectively (three and nine months ended September 30, 2010, 125% and 145%, respectively). The year over year changes in this ratio relate primarily to improved fund flows from operations partially offset by increases to capital expenditures and asset retirement obligations settled, as described above.

CAPITAL EXPENDITURES AND ACQUISITION OF PROPERTIES

	Three Months Ended		Nine Months Ended	
Capital Expenditures by category ($M)	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Land	$ 35,041	$ 3,561	$ 50,246	$ 96,304
Seismic	2,090	723	5,963	2,949
Drilling and completion	62,412	65,833	153,379	120,672
Production equipment and facilities	28,049	24,506	104,205	72,835
Recompletions	3,399	2,516	14,390	10,208
Other	3,790	9,854	10,346	23,779
Total capital expenditures	134,781	106,993	338,529	326,747
Acquisition of petroleum and natural gas properties	-	(173)	38,101	448
Total capital expenditures and acquisitions of petroleum and natural gas properties	$ 134,781	$ 106,820	$ 376,630	$ 327,195

	Three Months Ended		Nine Months Ended	
Capital Expenditures by classification ($M)	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Drilling and development of petroleum and natural gas properties	$ 89,332	$ 96,451	$ 281,749	$ 310,560
Exploration and evaluation of petroleum and natural gas properties	45,449	10,542	56,780	16,187
Total capital expenditures	134,781	106,993	338,529	326,747
Acquisition of petroleum and natural gas properties	-	(173)	38,101	448
Total capital expenditures and acquisitions of petroleum and natural gas properties	$ 134,781	$ 106,820	$ 376,630	$ 327,195

Total capital expenditures, including acquisitions, for the three and nine months ended September 30, 2011 were $134.8 million and $376.6 million, respectively (three and nine months ended September 30, 2010, $106.8 million and $327.2 million, respectively).

Capital expenditures excluding acquisitions of petroleum and natural gas properties for the three months ended September 30, 2011 increased from the same period in 2010 primarily due to land acquisitions associated with Vermilion's Cardium resource play. On a year to date basis, the increase in capital expenditures, as compared to the same period in the prior year, is associated with Vermilion's development of the Cardium light oil resource play.

Acquisition of petroleum and natural gas properties for the three months ended September 30, 2010 relate to closing adjustments of $0.2 million. On a year to date basis, the increase as compared to the same period in the prior year is related to Cardium land purchases.

PETROLEUM AND NATURAL GAS SALES

($M except per boe and per mcf)	Three Months Ended Sept 30, 2011	Three Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2011	Nine Months Ended Sept 30, 2010
Crude oil & NGLs	$ 202,303	$ 134,055	$ 625,348	$ 401,552
Per boe	100.71	76.62	104.26	77.76
Natural gas	46,058	38,198	131,050	109,827
Per mcf	6.50	5.64	6.28	5.52
Petroleum and natural gas sales	$ 248,361	$ 172,253	$ 756,398	$ 511,379
Per boe	$ 77.85	$ 59.82	$ 79.82	$ 60.30

Vermilion's consolidated petroleum and natural gas sales for the three and nine months ended September 30, 2011 increased to $248.4 million and $756.4 million, respectively, from $172.3 million and $511.4 million for the comparative periods in 2010. These year over year increases resulted primarily from higher prices for both oil and Netherlands' natural gas as well as increased oil volumes in Canada and Australia and gas volumes in the Netherlands.

In Canada, petroleum and natural gas sales increased by $18.2 million and $41.9 million, respectively, for the three and nine months ended September 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 prices. Vermilion's blended realized oil and NGL price for Canada increased to $86.29 per bbl and $88.92 per bbl for the three and nine months ended September 30, 2011, respectively, from $70.23 per bbl and $72.17 per bbl for the corresponding periods in the prior year. For the nine months ended September 30, 2011 the WTI reference price averaged US$95.48 per bbl versus US$77.65 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 $4.26 per mcf and $4.71 per mcf for the three and nine months ended September 30, 2010, respectively, to $3.95 per mcf and $3.98 per mcf for the three and nine months ended September 30, 2011. This decrease in the realized prices for natural gas sales in Canada was due to a lower average AECO reference price of $3.76 per mcf for the nine months ended September 30, 2011 versus $4.13 per mcf for the same period in the prior year.

Vermilion's sales from its operations in France 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$16.45 per bbl average premium that Dated Brent commanded over WTI during the first nine months of 2011. For the same period in the prior year, Dated Brent traded at essentially the same price as WTI. The increase in France sales of $17.8 million and $60.6 million for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in the prior year is associated with stronger oil prices year over year.

Netherlands' sales increased for the three and nine months ended September 30, 2011 by $9.0 million and $31.4 million, respectively. The year over year increases in sales for the quarter and year to date periods reflect both a higher sales price and increased volumes. The increase in volumes for 2011 resulted from placing on production one of two producing zones of the Vinkega-1 well that was drilled in 2009. 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 third quarter of 2011 is associated with the strengthening of Dated Brent prices in the first part of 2011.

Australian sales increased by $31.1 million and $111.1 million for the three and nine months ended September 30, 2011, respectively, as compared to the prior year due to higher oil prices and increases in production volumes associated with the three new wells placed on production in the fourth quarter of 2010.

Vermilion carries an inventory of oil in France and Australia, which reflects a timing difference between production and sales. Crude oil inventories increased substantially in the third quarter of 2011 versus the second quarter of 2011 due to an increase in Australia's inventory of approximately 109,339 bbls, partially offset by a decrease in France's inventory of approximately 5,495 bbls.

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

Ending Inventory Positions	As At Sept 30, 2011	As At Jun 30, 2011	As At Mar 31, 2011	As At Dec 31, 2010
France (bbls)	209,637	215,132	167,438	158,229
France ($M) [1]	$ 7,152	$ 8,525	$ 5,439	$ 4,599
Australia (bbls)	171,736	62,397	226,183	172,199
Australia ($M) [1]	$ 6,058	$ 2,250	$ 7,932	$ 6,108

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

DERIVATIVE INSTRUMENTS

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 September 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 – DATED 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 - DATED 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 - DATED 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	**Funded Cost**	**GJ/d**	**$/GJ**
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		**Notional Principal ($US) / Month**	**Fixed rate ($CDN / $US)**
US Dollar Forward Sale			
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 impact of Vermilion's derivative based risk management activities decreased the fund flows netback for the three and nine months ended September 30, 2011 by $2.44 per boe and $2.34 per boe, respectively. This compares to an increase of $0.76 per boe and $0.57 per boe for the three and nine months ended September 30, 2010. The decrease in the periods ended September 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

	Three Months Ended		Nine Months Ended	
($M except per boe and per mcf)	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Crude oil & NGLs	$ 12,675	$ 9,109	$ 36,712	$ 28,567
Per boe	6.31	5.21	6.12	5.53
Natural gas	808	1,086	2,518	4,318
Per mcf	0.11	0.16	0.12	0.22
Royalties	$ 13,483	$ 10,195	$ 39,230	$ 32,885
Per boe	$ 4.23	$ 3.54	$ 4.14	$ 3.88

As a result of Vermilion's adoption of 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 nine months ended September 30, 2010 included PRRT of $2.8 million and $21.3 million, respectively, within royalties for those periods. The prior period amounts presented in the above table and below have been restated to reflect the reclassification of these amounts to income taxes.

Consolidated royalties per boe for the three and nine months ended September 30, 2011 were $4.23 and $4.14, respectively, (three and nine months ended September 30, 2010, $3.54 and $3.88, respectively). As a percentage of sales, royalties decreased for the three and nine months ended September 30, 2011 to 5.4% and 5.2%, respectively (three and nine months ended September 30, 2010, 5.9% and 6.4%, respectively).

Canadian royalties as a percentage of sales for the three and nine months ended September 30, 2011 were 13.5% and 14.0%, respectively (three and nine months ended September 30, 2010, 14.5% and 15.6%, respectively). Crude oil and NGL royalties as a percentage of their sales decreased for the year to date period to 17.1% from 21.5% for 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 bbls to 100,000 bbls of production depending on well depth. As Vermilion has continued to drill more Cardium wells which benefit from this royalty incentive, the Company's crude royalty expense as a percentage of revenue has declined. Natural gas royalties as a percentage of their sales has decreased from 7.4% to 5.3% for the year to date period as a result of lower 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 oil prices were higher for during 2011 as compared to 2010, royalties, as a percentage of sales, decreased to 6.0% from 6.5% for the nine months ended September 30, 2011 as compared to the prior year.

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

OPERATING EXPENSE

	Three Months Ended		Nine Months Ended	
($M except per boe and per mcf)	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Crude oil & NGLs	$ 32,190	$ 24,504	$ 90,199	$ 72,799
Per boe	16.03	14.00	15.04	14.10
Natural gas	11,098	11,511	31,672	32,182
Per mcf	1.57	1.70	1.52	1.62
Operating expense	$ 43,288	$ 36,015	$ 121,871	$ 104,981
Per boe	$ 13.57	$ 12.51	$ 12.86	$ 12.38

Consolidated operating expenses were $43.3 million or $13.57 per boe and $121.9 million or $12.86 per boe, respectively, for the three and nine months ended September 30, 2011 (three and nine months ended September 30, 2010, $36.0 million or $12.51 per boe and $105.0 million or $12.38 per boe, respectively).

In Canada, operating expense for the three months ended September 30, 2011 increased to $13.5 million or $11.28 per boe as compared to $10.6 million or $10.22 per boe for the same period in 2010 (nine months ended September 30, 2011 increased to $39.5 million or $11.51 per boe from $29.4 million or $9.45 per boe for the comparable period in the prior year). These increases are a result of higher chemical costs, emulsion trucking charges and fuel and electricity costs associated with Vermilion's Cardium wells coupled with higher levels of downhole intervention spending and wages and benefits expense. These increased levels of spending were partially offset by higher volumes reducing the impact on a per boe basis.

In France, operating expense increased to $14.3 million or $19.15 per boe and $35.5 million or $15.56 per boe for the three and nine months ended September 30, 2011, respectively, as compared to $11.2 million or $13.88 per boe and $32.3 million or $14.06 per boe for the comparable periods in 2010. The per boe increases reflect costs associated with a third quarter 2011 downhole maintenance campaign as well as increased wages and benefits expense. Lower volumes for the third quarter of 2011 as compared to the same period in the prior year also contributed to higher per boe operating expenses.

In the Netherlands, operating expense decreased slightly to $4.0 million for the three months ended September 30, 2011 from $4.3 million for the comparable period in the prior year as a result of higher gas processing fee recoveries. Operating expense of $12.3 million for the nine months ended September 30, 2011 is relatively consistent with the prior year. On a per boe basis, Netherlands operating expenses decreased to $7.76 for the three months ended September 30, 2011 as compared to $9.26 for the same period in 2010 due to the higher gas processing fee recovery coupled with an increase in production volumes. For the nine months ended September 30, 2011, Netherlands operating expenses decreased on a per boe basis to $8.31 from $9.65 due to higher volumes year over year.

In Australia, operating expense increased to $11.5 million and $34.5 million for the three and nine months ended September 30, 2011, respectively as compared to $10.0 million and $31.1 million for the corresponding periods in the prior year. The increases in operating expense resulted from higher salary expense as well as supply vessel costs associated with facility maintenance campaigns. Higher levels of production resulted in a decrease in operating expenses per boe to $15.70 and $15.16 for the three and nine months ended September 30, 2011, respectively, versus $17.38 and $17.21 for the corresponding periods in the prior year.

TRANSPORTATION EXPENSE

	Three Months Ended		Nine Months Ended	
($M except per boe)	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Transportation expense	$ 6,461	$ 6,547	$ 18,511	$ 20,397
Per boe	$ 2.03	$ 2.27	$ 1.95	$ 2.41

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 the majority of Canadian oil and natural gas production, legal title transfers upon delivery to major pipelines. In France, the majority of Vermilion's transportation expense relates to production from the Aquitaine Basin, which is transported by pipeline to the Ambès terminal in Bordeaux and then shipped by tanker to the refinery in Le Havre, where the production is sold when the tanker is unloaded. 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 nine months ended September 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

	Three Months Ended		Nine Months Ended	
($M except per boe)	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
General and administration expense	$ 11,375	$ 10,393	$ 34,830	$ 30,167
Per boe	$ 3.57	$ 3.61	$ 3.68	$ 3.56

General and administration expense for the three and nine months ended September 30, 2011 was $11.4 million and $34.8 million, respectively (three and nine months ended September 30, 2010, $10.4 million and $30.2 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 Sept 30, 2011	Three Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2011	Nine Months Ended Sept 30, 2010
Equity based compensation expense	$ 7,609	$ 7,162	$ 22,517	$ 23,962
Per boe	$ 2.39	$ 2.49	$ 2.38	$ 2.83

Non-cash equity based compensation expense for the three and nine months ended September 30, 2011 was $7.6 million and $22.5 million, respectively (three and nine months ended September 30, 2010, $7.2 million and $24.0 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 Sept 30, 2011	Three Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2011	Nine Months Ended Sept 30, 2010
Interest expense	$ 6,659	$ 3,159	$ 18,602	$ 9,888
Per boe	$ 2.09	$ 1.10	$ 1.96	$ 1.17

Interest expense for the three and nine months ended September 30, 2011 was $6.7 million and $18.6 million, respectively (three and nine months ended September 30, 2010, $3.2 million and $9.9 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 and 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 Sept 30, 2011	Three Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2011	Nine Months Ended Sept 30, 2010
Depletion and depreciation expenses	$ 60,516	$ 42,999	$ 171,813	$ 123,158
Per boe	$ 18.97	$ 14.93	$ 18.13	$ 14.52
Accretion expense	$ 5,378	$ 4,459	$ 16,096	$ 13,306
Per boe	$ 1.69	$ 1.55	$ 1.70	$ 1.57

Depletion and depreciation per boe for the three and nine months ended September 30, 2011 was $18.97 per boe and $18.13 per boe, respectively (three and nine months ended September 30, 2010, $14.93 per boe and $14.52 per boe, respectively). Depletion and depreciation rates for the three and nine months ended September 30, 2011 have increased over the comparable periods in 2010 due primarily to higher finding, development and acquisition costs incurred by Vermilion.

Accretion expense for the three and nine months ended September 30, 2011 was $1.69 per boe and $1.70 per boe, respectively (three and nine months ended September 30, 2010, $1.55 per boe and $1.57 per boe, respectively). The changes period over period were a result of increases in the underlying asset retirement obligations due to new wells drilled during the period and previously recorded adjustments to the present value of the obligations.

TAXES

($M except per boe)	Three Months Ended Sept 30, 2011	Three Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2011	Nine Months Ended Sept 30, 2010
Current taxes before PRRT	$ 24,599	$ 15,339	$ 86,573	$ 43,352
Per boe	7.71	5.33	9.14	5.11
PRRT	18,281	2,776	77,534	21,345
Per boe	5.73	0.96	8.18	2.52
Current taxes	$ 42,880	$ 18,115	$ 164,107	$ 64,697
Per boe	$ 13.44	$ 6.29	$ 17.32	$ 7.63

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 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 nine months ended September 30, 2011 was $24.6 million and $86.6 million, respectively (three and nine months ended September 30, 2010, $15.3 million and $43.4 million, respectively). The increases are attributable to the higher year over year taxable income 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 of the three and nine months ended September 30, 2011. PRRT as a percentage of operating income for Australia was 31% and 37% for the three and nine months ended September 30, 2011, respectively (three and nine months ended September 30, 2010, 8% and 19%, respectively). The increase in PRRT as a percentage of operating income is due to lower capital expenditures occurring in both of the three and nine months ended September 30, 2011 ($2.5 million and $9.4 million, respectively) compared to the three and nine months ended September 30, 2010 ($24.2 million and $38.9 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

	Three Months Ended		Nine Months Ended	
($M except per boe)	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Foreign exchange loss (gain)	$ 1,930	$ (14,598)	$ (13,724)	$ 19,742
Per boe	$ 0.60	$ (5.07)	$ (1.45)	$ 2.33

During the three and nine months ended September 30, 2011, a combined realized and unrealized foreign exchange loss of $1.9 million and gain of $13.7 million was recognized, respectively versus a $14.6 million gain and $19.7 million loss for the same periods in 2010. The foreign exchange impacts in the three and nine months ended September 30, 2011 are comprised of a realized loss of $0.7 million and $0.3 million, respectively, and an unrealized loss of $1.2 million and an unrealized gain of $14.0 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 nine months ended September 30, 2011 was $64.4 million or $0.71 per share and $173.1 million or $1.92 per share, respectively (three and nine months ended September 30, 2010, $24.6 million or $0.29 per share and $66.2 million or $0.81 per share, respectively). The increase in earnings for the three and nine months ended September 30, 2011 is largely related to the increase in production and generally higher commodity prices in 2011 as compared to 2010, partially offset by year over year increases in current taxes. Further, the net earnings for the three and nine months ended September 30, 2011 reflects a derivative gain of $19.5 million and a derivative loss of $15.5 million, respectively (three and nine months ended September 30, 2010, loss of $3.6 million and gain of $9.7 million).

SUMMARY OF QUARTERLY RESULTS

($M except per share)	Q3/11	Q2/11	Q1/11	Q4/10	Q3/10	Q2/10	Q1/10	Q4/09[1]
Petroleum and natural gas sales	$ 248,361	$ 278,297	$ 229,740	$ 216,426	$ 172,253	$ 169,545	$ 169,581	$ 180,544
Net earnings (loss)	$ 64,442	$ 81,429	$ 27,193	$ (21,809)	$ 24,576	$ 49,811	$ (8,183)	$ 122,900
Net earnings (loss) per share								
Basic	$ 0.71	$ 0.90	$ 0.30	$ (0.25)	$ 0.29	$ 0.62	$ (0.10)	$ 1.60
Diluted	$ 0.70	$ 0.89	$ 0.30	$ (0.25)	$ 0.29	$ 0.44	$ (0.10)	$ 1.59

[1] Amounts presented under previous GAAP

LIQUIDITY AND CAPITAL RESOURCES

Vermilion's net debt as at September 30, 2011 was $467.4 million compared to $303.3 million as at December 31, 2010.

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

	Sept 30, 2011	Dec 31, 2010
Revolving credit facility	$ 187,968	$ 302,558
Senior unsecured notes	221,128	-
Total long-term debt	$ 409,096	$ 302,558

Revolving Credit Facility

At September 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 net 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 net 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 September 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 initially recognized at fair value net of transaction costs directly related to the issuance and are subsequently measured at amortized cost using the effective interest rate method.

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 September 30, 2011, Vermilion's asset retirement obligations were $315.7 million compared to $267.4 million as at December 31, 2010. The increase is largely attributable primarily to additions from the wells drilled during the period, accretion, changes in the discount rates applied to the obligations and the impact of exchange rates on foreign currency denominated obligations. The increases were partially offset by obligations settled during the year to date period.

DIVIDENDS

Sustainability of Dividends

($M)	Three Months Ended Sept 30, 2011	Nine Months Ended Sept 30, 2011	Year Ended Dec 31, 2010	Year Ended Dec 31, 2009[1]
Cash flows from operating activities	$ 99,906	$ 288,453	$ 421,282	$ 230,316
Net earnings	$ 64,442	$ 173,064	$ 44,395	$ 185,498
Dividends declared	$ 51,612	$ 153,975	$ 189,744	$ 166,385
Excess of cash flows from operating activities over dividends declared	$ 48,294	$ 134,478	$ 231,538	$ 63,931
Excess (shortfall) of net earnings over dividends declared	$ 12,830	$ 19,089	$ (145,349)	$ 19,113

[1] Amounts presented under previous GAAP

Vermilion maintained monthly dividends at $0.19 per share for the three and nine months ended September 30, 2011 and declared dividends totalling $51.6 million in the quarter compared to $47.6 million for the same period in 2010.

Excess cash flows from operating activities and net earnings 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 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.

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 two 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 nine months ended September 30, 2011, 1,676,910 shares were issued pursuant to the dividend reinvestment plan and Vermilion's equity based compensation programs. Shareholders' capital increased by $70.8 million as a result of the issuance of those shares.

As at September 30, 2011, there were 90,675,152 shares outstanding. As at November 3, 2011, there were 90,810,447 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 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 September 30, 2011 of $230.0 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 is expected to commence in the coming months. 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 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, 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 September 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 September 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 September 30, 2010 and December 31, 2010; the Consolidated Statements of Net Earnings and Comprehensive Income, Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2010 and for the year ended December 31, 2010; and the Consolidated Statements of Changes in Shareholders' (Unitholders') Equity as at January 1, 2010, September 30, 2010 and 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

	Three Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2010	Year Ended Dec 31, 2010
Net earnings and comprehensive income - Previous GAAP	$ 8,911	$ 95,446	$ 111,263
Increase in equity based compensation expense	(1,595)	(9,024)	(6,406)
Increase in loss on derivative instruments	(1,398)	(874)	(3,013)
Increase (decrease) in unrealized foreign exchange	31,768	(32,080)	(61,091)
Decrease in accretion expense	36	252	250
Decrease in depletion and depreciation	24,096	53,289	69,783
Decrease in deferred income tax recovery	(14,010)	(17,917)	(23,663)
Goodwill impairment	-	-	(19,840)
Reversal of non-controlling interest - exchangeable shares	306	8,241	8,241
Remeasurement loss on liability associated with exchangeable shares	(23,538)	(31,129)	(31,129)
Net earnings - IFRS	24,576	66,204	44,395
Cumulative translation adjustments	41,081	(16,880)	(31,577)
Comprehensive income - IFRS	$ 65,657	$ 49,324	$ 12,818

SUMMARY OF CHANGES IN ROYALTY AND CURRENT TAX EXPENSES

($M except per boe)	Three Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2010	Year Ended Dec 31, 2010
Royalty expense - Previous GAAP	$ 12,971	$ 54,230	$ 83,509
Reclassification of Australia PRRT from royalties to current taxes	(2,776)	(21,345)	(39,537)
Royalties - IFRS	$ 10,195	$ 32,885	$ 43,972

($M except per boe)	Three Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2010	Year Ended Dec 31, 2010
Current tax expense - Previous GAAP	$ 15,339	$ 43,352	$ 72,701
Reclassification of Australia PRRT from royalties to current taxes	2,776	21,345	39,537
Current tax expense - IFRS	$ 18,115	$ 64,697	$ 112,238

SUMMARY OF CHANGES IN FINANCIAL METRICS

($M)	Three Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2010	Year Ended Dec 31, 2010
Fund flows from operations - Previous GAAP	$ 94,542	$ 263,310	$ 363,487
Reclassification of contingent consideration to operating activities from investing activities	(1,614)	(3,943)	(5,958)
Fund flows from operations - IFRS	$ 92,928	$ 259,367	$ 357,529

($M)	As At Sept 30, 2010	As At Dec 31, 2010
Net debt - Previous GAAP	$ 238,257	$ 300,393
Reclassify current portion of deferred taxes to non-current	(1,811)	2,902
Adjustment to accrue for contingent consideration	1,506	-
Net debt - IFRS	$ 237,952	$ 303,295

NETBACKS (6:1)

	Three Months Ended Sept 30, 2011			Nine Months Ended Sept 30, 2011			Three Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2010
	Oil & NGLs $/bbl	Natural Gas $/mcf	Total $/boe	Oil & NGLs $/bbl	Natural Gas $/mcf	Total $/boe	Total $/boe	Total $/boe
Canada								
Price	$ 86.29	$ 3.95	$ 51.81	$ 88.92	$ 3.98	$ 51.71	$ 42.28	$ 43.61
Realized hedging (loss) gain	(0.23)	(0.02)	(0.16)	(0.72)	(0.01)	(0.35)	2.22	1.33
Royalties	(14.12)	(0.20)	(6.99)	(15.23)	(0.21)	(7.23)	(6.11)	(6.80)
Transportation	(1.73)	(0.18)	(1.37)	(1.65)	(0.19)	(1.35)	(1.43)	(1.50)
Operating costs	(12.35)	(1.73)	(11.28)	(14.31)	(1.57)	(11.51)	(10.22)	(9.45)
Operating netback	$ 57.86	$ 1.82	$ 32.01	$ 57.01	$ 2.00	$ 31.27	$ 26.74	$ 27.19
France								
Price	$ 109.06	$ 12.66	$ 108.40	$ 106.37	$ 11.60	$ 105.67	$ 78.37	$ 78.57
Realized hedging (loss) gain	(4.55)	-	(4.46)	(4.23)	-	(4.15)	(0.12)	0.32
Royalties	(6.98)	(0.33)	(6.88)	(6.41)	(0.27)	(6.32)	(4.82)	(5.10)
Transportation	(3.51)	-	(3.44)	(3.20)	-	(3.14)	(3.21)	(3.55)
Operating costs	(19.18)	(2.94)	(19.15)	(15.49)	(3.19)	(15.56)	(13.88)	(14.06)
Operating netback	$ 74.84	$ 9.39	$ 74.47	$ 77.04	$ 8.14	$ 76.50	$ 56.34	$ 56.18
Netherlands								
Price	$ 95.41	$ 9.61	$ 58.11	$ 95.03	$ 9.19	$ 55.54	$ 44.50	$ 40.40
Operating costs	-	(1.31)	(7.76)	-	(1.40)	(8.31)	(9.26)	(9.65)
Operating netback	$ 95.41	$ 8.30	$ 50.35	$ 95.03	$ 7.79	$ 47.23	$ 35.24	$ 30.75
Australia								
Price	$ 102.98	$ -	$ 102.98	$ 112.14	$ -	$ 112.14	$ 77.98	$ 79.73
Realized hedging loss	(5.82)	-	(5.82)	(5.06)	-	(5.06)	-	-
Operating costs	(15.70)	-	(15.70)	(15.16)	-	(15.16)	(17.38)	(17.21)
PRRT	(24.86)	-	(24.86)	(34.09)	-	(34.09)	(4.84)	(11.83)
Operating netback	$ 56.60	$ -	$ 56.60	$ 57.83	$ -	$ 57.83	$ 55.76	$ 50.69
Total Company								
Price	$ 100.71	$ 6.50	$ 77.85	$ 104.26	$ 6.28	$ 79.82	$ 59.82	$ 60.30
Realized hedging (loss) gain	(3.85)	(0.01)	(2.44)	(3.67)	(0.01)	(2.34)	0.76	0.57
Royalties	(6.31)	(0.11)	(4.23)	(6.12)	(0.12)	(4.14)	(3.54)	(3.88)
Transportation	(1.74)	(0.42)	(2.03)	(1.60)	(0.43)	(1.95)	(2.27)	(2.41)
Operating costs	(16.03)	(1.57)	(13.57)	(15.04)	(1.52)	(12.86)	(12.51)	(12.38)
PRRT	(9.10)	-	(5.73)	(12.93)	-	(8.18)	(0.96)	(2.52)
Operating netback	$ 63.68	$ 4.39	$ 49.85	$ 64.90	$ 4.20	$ 50.35	$ 41.30	$ 39.68
General and administration			(3.57)			(3.68)	(3.61)	(3.56)
Interest			(2.09)			(1.96)	(1.10)	(1.17)
Realized foreign exchange (loss) gain			(0.21)			(0.02)	0.80	0.65
Other income			0.19			0.07	0.20	0.07
Current income taxes			(7.71)			(9.14)	(5.33)	(5.11)
Fund flows netback			$ 36.46			$ 35.62	$ 32.26	$ 30.56
Accretion			(1.69)			(1.70)	(1.55)	(1.57)
Depletion and depreciation			(18.97)			(18.13)	(14.93)	(14.52)
Future income taxes			(0.94)			2.95	0.68	2.58
Other expense			(0.44)			(0.27)	0.48	(0.36)
Unrealized foreign exchange (loss) gain			(0.39)			1.47	4.27	(2.98)
Remeasurement of liability associated with exchangeable shares			-			-	(8.17)	(3.67)
Unrealized gain (loss) on derivative instruments			8.54			0.71	(2.03)	0.57
Equity based compensation			(2.39)			(2.38)	(2.49)	(2.83)
Earnings netback			$ 20.18			$ 18.27	$ 8.52	7.78

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.

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
$M	thousand dollars

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

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

Peter Sider, P.Eng.
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.

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

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

INVESTOR RELATIONS CONTACT

Dean Morrison, Director Investor Relations
403.269.4884 TEL
403.476.8100 FAX
1.866.895.8101 IR TOLL FREE
investor_relations@vermilionenergy.com

3500, 520 - 3rd Avenue S.W.
Calgary, Alberta T2P 0R3
T. 403.269.4884 | F. 403.476-8100
www.vermilionenergy.com