Q1 2012

# VERMILION ENERGY INC.

# FINANCIAL STATEMENTS

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.

## CONSOLIDATED BALANCE SHEETS
**(THOUSANDS OF CANADIAN DOLLARS, UNAUDITED)**

| | Note | March 31, 2012 | December 31, 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | | **114,637** | 234,507 |
| Accounts receivable | | **205,088** | 176,820 |
| Crude oil inventory | | **8,082** | 13,885 |
| Derivative instruments | | **92** | 186 |
| Prepaid expenses | | **9,333** | 10,261 |
| | | **337,232** | 435,659 |
| Deferred taxes | | **195,123** | 175,545 |
| Exploration and evaluation assets | 4 | **98,134** | 92,301 |
| Capital assets | 3 | **2,196,510** | 2,031,682 |
| | | **2,826,999** | 2,735,187 |
| **LIABILITIES** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | | **250,753** | 297,756 |
| Dividends payable | 7 | **18,399** | 18,322 |
| Derivative instruments | | **20,580** | 11,568 |
| Income taxes payable | | **76,341** | 36,407 |
| Amount due pursuant to acquisition | | **127,392** | 127,131 |
| | | **493,465** | 491,184 |
| Derivative instruments | | **-** | 767 |
| Long-term debt | 6 | **373,798** | 373,436 |
| Asset retirement obligations | 5 | **341,369** | 310,531 |
| Deferred taxes | | **241,802** | 227,668 |
| | | **1,450,434** | 1,403,586 |
| **SHAREHOLDERS' EQUITY** | | | |
| Shareholders' capital | 7 | **1,386,339** | 1,368,145 |
| Contributed surplus | | **65,887** | 56,468 |
| Accumulated other comprehensive loss | | **(26,006)** | (33,387) |
| Deficit | | **(49,655)** | (59,625) |
| | | **1,376,565** | 1,331,601 |
| | | **2,826,999** | 2,735,187 |

**APPROVED BY THE BOARD**

*("W. Kenneth Davidson")* *("Lorenzo Donadeo")*

W. Kenneth Davidson, Director Lorenzo Donadeo, Director

## CONSOLIDATED STATEMENTS OF NET EARNINGS AND COMPREHENSIVE INCOME
**(THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE AND PER SHARE AMOUNTS, UNAUDITED)**

| | Note | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 |
|---|---|---|---|
| **REVENUE** | | | |
| Petroleum and natural gas sales | | **310,488** | 229,740 |
| Royalties | | **(14,452)** | (13,207) |
| **Petroleum and natural gas revenue** | | **296,036** | 216,533 |
| **EXPENSES** | | | |
| Operating | | **47,553** | 37,848 |
| Transportation | | **6,693** | 6,084 |
| Equity based compensation | 8 | **10,055** | 8,226 |
| Loss on derivative instruments | | **14,057** | 50,918 |
| Interest expense | | **6,101** | 5,374 |
| General and administration | | **10,148** | 12,107 |
| Foreign exchange gain | | **(4,427)** | (13,284) |
| Other expense | 2 | **7,983** | 352 |
| Accretion | 5 | **5,238** | 6,315 |
| Depletion and depreciation | 3, 4 | **75,848** | 51,714 |
| Impairments | 3 | **65,800** | - |
| Gain on acquisitions | 2 | **(45,309)** | - |
| | | **199,740** | 165,654 |
| **EARNINGS BEFORE INCOME TAXES** | | **96,296** | 50,879 |
| **INCOME TAXES** | | | |
| Deferred | | **(28,431)** | (25,913) |
| Current | | **59,633** | 49,599 |
| | | **31,202** | 23,686 |
| **NET EARNINGS** | | **65,094** | 27,193 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Currency translation adjustments | | **7,381** | 10,597 |
| **COMPREHENSIVE INCOME** | | **72,475** | 37,790 |
| **NET EARNINGS PER SHARE** | | | |
| Basic | | **0.67** | 0.30 |
| Diluted | | **0.66** | 0.30 |
| **WEIGHTED AVERAGE SHARES OUTSTANDING ('000s)** | | | |
| Basic | | **96,644** | 89,224 |
| Diluted | | **98,191** | 90,514 |

## CONSOLIDATED STATEMENTS OF CASH FLOWS
**(THOUSANDS OF CANADIAN DOLLARS, UNAUDITED)**

| | Note | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 |
|---|---|---|---|
| **OPERATING** | | | |
| Net earnings | | **65,094** | 27,193 |
| Adjustments: | | | |
| Accretion | 5 | **5,238** | 6,315 |
| Depletion and depreciation | 3, 4 | **75,848** | 51,714 |
| Impairments | 3 | **65,800** | - |
| Gain on acquisitions | 2 | **(45,309)** | - |
| Unrealized loss on derivative instruments | | **8,339** | 46,963 |
| Equity based compensation | 8 | **10,055** | 8,226 |
| Unrealized foreign exchange gain | | **(5,247)** | (13,104) |
| Unrealized other (income) expense | | **(265)** | 391 |
| Deferred taxes | | **(28,431)** | (25,913) |
| | | **151,122** | 101,785 |
| Asset retirement obligations settled | 5 | **(766)** | (1,631) |
| Changes in non-cash operating working capital | | **(25,469)** | 26,463 |
| Cash flows from operating activities | | **124,887** | 126,617 |
| **INVESTING** | | | |
| Drilling and development | 3 | **(87,896)** | (116,833) |
| Exploration and evaluation | 4 | **(6,464)** | (1,581) |
| Property acquisitions | 2, 3 | **(106,184)** | (38,291) |
| Changes in non-cash investing working capital | | **(6,754)** | 29,320 |
| Cash flows used in investing activities | | **(207,298)** | (127,385) |
| **FINANCING** | | | |
| Increase in long-term debt | | **-** | 72,593 |
| Issuance of shares pursuant to the dividend reinvestment plan | 7 | **17,558** | 12,976 |
| Cash dividends | | **(55,047)** | (50,779) |
| Cash flows (used in) from financing activities | | **(37,489)** | 34,790 |
| Foreign exchange gain on cash held in foreign currencies | | **30** | 2,169 |
| Net change in cash and cash equivalents | | **(119,870)** | 36,191 |
| Cash and cash equivalents, beginning of period | | **234,507** | 160,755 |
| Cash and cash equivalents, end of period | | **114,637** | 196,946 |
| Supplementary information for operating activities - cash payments | | | |
| Interest paid | | **9,507** | 2,366 |
| Income taxes paid | | **19,699** | 7,544 |

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**(THOUSANDS OF CANADIAN DOLLARS, UNAUDITED)**

| | Note | Shareholders' Capital | Contributed Surplus | Accumulated Other Comprehensive Loss | Retained Earnings (Deficit) | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balances as at January 1, 2011 | | 1,025,770 | 40,726 | (31,577) | 10,983 | 1,045,902 |
| Net earnings | | - | - | - | 27,193 | 27,193 |
| Currency translation adjustments | | - | - | 10,597 | - | 10,597 |
| Equity based compensation expense | | - | 7,440 | - | - | 7,440 |
| Dividends declared | | - | - | - | (50,942) | (50,942) |
| Issuance of shares pursuant to the dividend reinvestment plan | 7 | 12,976 | - | - | - | 12,976 |
| Vesting of equity based awards | 8 | 16,407 | (16,407) | - | - | - |
| Share-settled dividends on vested equity based awards | 8 | 4,991 | - | - | (4,991) | - |
| Shares issued for bonus plan | 7 | 786 | - | - | - | 786 |
| Balances as at March 31, 2011 | | 1,060,930 | 31,759 | (20,980) | (17,757) | 1,053,952 |

| | Note | Shareholders' Capital | Contributed Surplus | Accumulated Other Comprehensive Loss | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balances as at January 1, 2012 | | 1,368,145 | 56,468 | (33,387) | (59,625) | 1,331,601 |
| Net earnings | | - | - | - | 65,094 | 65,094 |
| Currency translation adjustments | | - | - | 7,381 | - | 7,381 |
| Equity based compensation expense | | - | 9,419 | - | - | 9,419 |
| Dividends declared | | - | - | - | (55,124) | (55,124) |
| Issuance of shares pursuant to the dividend reinvestment plan | 7 | 17,558 | - | - | - | 17,558 |
| Shares issued for bonus plan | 7 | 636 | - | - | - | 636 |
| Balances as at March 31, 2012 | | 1,386,339 | 65,887 | (26,006) | (49,655) | 1,376,565 |

## DESCRIPTION OF EQUITY RESERVES

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

***Contributed surplus***
Represents the recognized value of employee awards which are settled in shares. Once vested, the value of the awards is transferred to shareholders' capital.

***Accumulated other comprehensive loss***
Represents the cumulative income and expenses which are not recorded immediately in net earnings and are accumulated until an event triggers recognition in net earnings. Any such event would result in a change to both accumulated other comprehensive loss and retained earnings (deficit). The current balance consists of currency translation adjustments resulting from translating financial statements of subsidiaries with a foreign functional currency to Canadian dollars at period end rates.

***Retained earnings (deficit)***
Represents the consolidated earnings less distributed earnings of Vermilion Energy Inc.

(TABULAR AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE AND PER SHARE AMOUNTS, UNAUDITED)

## 1. BASIS OF PRESENTATION

Vermilion Energy Inc. (the "Company" or "Vermilion") is a corporation governed by the laws of the Province of Alberta and is actively engaged in the business of petroleum and natural gas development, acquisition and production.

These condensed consolidated interim financial statements are in compliance with IAS 34, "Interim financial reporting" and have been prepared using the same accounting policies and methods of computation as Vermilion's consolidated financial statements for the year ended December 31, 2011. Accounting pronouncements that have been issued but have not yet been adopted are discussed in Note 3 of Vermilion's consolidated financial statements for the year ended December 31, 2011. These condensed consolidated interim financial statements should be read in conjunction with Vermilion's consolidated financial statements for the year ended December 31, 2011, which is contained within Vermilion's 2011 Annual Report and is available on SEDAR at www.sedar.com or on Vermilion's website at www.vermilionenergy.com.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of Vermilion on May 3, 2012.

## 2. BUSINESS COMBINATIONS

On January 19, 2012, Vermilion acquired, through its wholly owned subsidiaries, working interests in six producing fields located in the Paris and Aquitaine basins in France, for total consideration of $106.1 million before closing adjustments. The acquired working interests expanded Vermilion's existing interests and was a natural addition to the previous France asset base and is well aligned with Vermilion's strategic objective to maintain and consolidate the Company's core operating areas to own and operate 100% of its assets.

The acquired assets include land, wells, facilities, and inventory located in the Company's core producing fields in France. The fair value of the acquired identifiable assets and liabilities assumed at the date of acquisition was $151.4 million. As a result of an increase in the fair value of the acquired petroleum and natural gas reserves from when the acquisition was negotiated to the acquisition date, arising from changes in the underlying commodity price forecasts used to determine the fair value of reserves, a gain of $45.3 million was recognized on this acquisition.

The acquisition has been accounted for as a business combination with the fair value of the assets acquired and liabilities assumed at the date of acquisition summarized below:

| ($M) | Consideration |
|---|---|
| Cash paid to vendor | 106,115 |
| **Total consideration** | 106,115 |

| ($M) | Allocation of Consideration |
|---|---|
| Petroleum and natural gas assets | 206,191 |
| Asset retirement obligations assumed | (27,518) |
| Deferred tax liabilities | (23,151) |
| Acquired working capital deficiency | (4,098) |
| Net assets acquired | 151,424 |
| Gain on acquisitions | (45,309) |
| **Net assets acquired, net of gain on acquisitions** | 106,115 |

Transfer taxes associated with this acquisition totaling $8.5 million have been excluded from the consideration and have been recognized as an expense in the period ended March 31, 2012, within "Other expense" in the consolidated statements of net earnings and comprehensive income.

The results of operations from the assets acquired have been included in Vermilion's condensed consolidated interim financial statements beginning January 19, 2012, which contributed revenues of $24.9 million and operating income of $18.1 million. Had the acquisition occurred on January 1, 2012, management estimates that consolidated revenues would have increased by an additional $6.6 million and consolidated operating income would have increased by $4.8 million for the quarter ended March 31, 2012. In determining the pro-forma amounts, management has assumed that the fair value adjustments, determined provisionally, that arose at the date of acquisition would have been the same if the acquisition had occurred on January 1, 2012. It is impracticable to derive all amounts necessary to determine the increase to net earnings from the acquired working interests as operations were immediately merged with Vermilion's operations.

## 3. CAPITAL ASSETS

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

| ($M) | Petroleum and Natural Gas Assets | Furniture and Office Equipment | Total Capital Assets |
|---|---|---|---|
| **Balance at January 1, 2011** | 1,802,422 | 17,130 | 1,819,552 |
| Additions | 408,810 | 2,417 | 411,227 |
| Property acquisitions | 50,878 | - | 50,878 |
| Borrowing costs capitalized | 9,923 | - | 9,923 |
| Changes in estimate for asset retirement obligations | 45,267 | - | 45,267 |
| Depletion and depreciation | (228,562) | (4,414) | (232,976) |
| Impairment loss | (64,400) | - | (64,400) |
| Effect of movements in foreign exchange rates | (7,727) | (62) | (7,789) |
| **Balance at December 31, 2011** | 2,016,611 | 15,071 | 2,031,682 |
| Additions | 186,589 | 1,383 | 187,972 |
| Property acquisitions | 106,184 | - | 106,184 |
| Borrowing costs capitalized | 2,503 | - | 2,503 |
| Changes in estimate for asset retirement obligations | (2,820) | - | (2,820) |
| Depletion and depreciation | (73,018) | (1,940) | (74,958) |
| Impairment loss | (65,800) | - | (65,800) |
| Effect of movements in foreign exchange rates | 11,716 | 31 | 11,747 |
| **Balance at March 31, 2012** | 2,181,965 | 14,545 | 2,196,510 |

At March 31, 2012 and December 31, 2011, Vermilion performed assessments as to whether any cash generating units ("CGU") had indicators of impairment. When indicators of impairment are identified, Vermilion assesses the recoverable amount of each CGU based on the estimated fair value less costs to sell as at the reporting date. The estimated fair value takes into account the most recent commodity price forecasts, expected future production and estimated costs of development. For the three months ended March 31, 2012, Vermilion recorded an impairment charge of $65.8 million related to conventional deep gas and shallow coal bed methane natural gas plays. The impairment charges were as a result of declines in the price forecasts for natural gas in Canada which decreased the expected cash flows from the CGU's.

Benchmark prices used in the March 31, 2012 calculations of recoverable amounts were determined by multiplying the mix of oil, natural gas and NGLs inherent in the reserves of the conventional deep gas and shallow coal bed methane CGUs by the price forecasts for each year. The blended price per barrel of oil equivalent (BOE) was:

| Canada | $/BOE |
|---|---|
| 2012 | 27.01 |
| 2013 | 33.46 |
| 2014 | 35.78 |
| 2015 | 38.23 |
| 2016 | 40.68 |
| 2017 | 43.13 |
| 2018 | 45.61 |
| 2019 | 46.53 |
| 2020 | 47.51 |
| 2021 | 48.44 |
| Average increase thereafter | 2.0% |

## 4. EXPLORATION AND EVALUATION ASSETS

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

| ($M) | Exploration and Evaluation Assets |
|---|---|
| **Balance at January 1, 2011** | 17,157 |
| Additions | 79,553 |
| Depreciation | (3,732) |
| Effect of movements in foreign exchange rates | (677) |
| **Balance at December 31, 2011** | 92,301 |
| Additions | 6,464 |
| Depreciation | (890) |
| Effect of movements in foreign exchange rates | 259 |
| **Balance at March 31, 2012** | 98,134 |

## 5. ASSET RETIREMENT OBLIGATIONS

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

| ($M) | Asset Retirement Obligations |
|---|---|
| **Balance at January 1, 2011** | 267,389 |
| Additional obligations recognized | 8,612 |
| Changes in estimates for existing obligations | (4,364) |
| Obligations settled | (23,071) |
| Accretion | 21,889 |
| Changes in discount rates | 41,019 |
| Effect of movements in foreign exchange rates | (943) |
| **Balance at December 31, 2011** | 310,531 |
| Additional obligations recognized | 28,793 |
| Obligations settled | (766) |
| Accretion | 5,238 |
| Changes in discount rates | (4,095) |
| Effect of movements in foreign exchange rates | 1,668 |
| **Balance at March 31, 2012** | 341,369 |

## 6. LONG-TERM DEBT

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

| | 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).

## 7. SHAREHOLDERS' CAPITAL

The following tables reconcile the change in Vermilion's shareholders' capital:

| Shareholders' Capital | Number of Shares | Amount ($M) |
|---|---|---|
| **Balance as at January 1, 2011** | 88,998,242 | 1,025,770 |
| Issuance of shares, net of deferred taxes | 5,370,000 | 254,786 |
| Issuance of shares pursuant to the dividend reinvestment plan | 1,323,482 | 59,081 |
| Vesting of equity based awards | 608,073 | 22,139 |
| Share-settled dividends on vested equity based awards | 114,487 | 5,583 |
| Shares issued for bonus plan | 15,851 | 786 |
| **Balance as at December 31, 2011** | 96,430,135 | 1,368,145 |
| Issuance of shares pursuant to the dividend reinvestment plan | 395,123 | 17,558 |
| Shares issued for bonus plan | 13,167 | 636 |
| **Balance as at March 31, 2012** | 96,838,425 | 1,386,339 |

Dividends declared to shareholders for the three months ended March 31, 2012 were $55.1 million.

Subsequent to the end of the period and prior to the condensed interim consolidated financial statements being authorized for issue on May 3, 2012, Vermilion declared dividends totalling $18.6 million or $0.19 per share.

## 8. EQUITY BASED COMPENSATION PLAN

The following table summarizes the number of awards outstanding under the Vermilion Incentive Plan ("VIP"):

| Number of Awards | 2012 | 2011 |
|---|---|---|
| Opening balance | **1,750,055** | 1,683,776 |
| Granted | **490,492** | 566,425 |
| Vested | **-** | (434,150) |
| Forfeited | **(27,143)** | (65,996) |
| Closing balance | **2,213,404** | 1,750,055 |

The fair value of a VIP award is determined on the grant date at the closing price of Vermilion's common shares on the Toronto Stock Exchange, adjusted by the estimated performance factor that will ultimately be achieved. Dividends, which notionally accrue to the awards during the vesting period, are not included in the determination of grant date fair values. For the three months ended March 31, 2012, the awards granted had a weighted average fair value of $57.51 (2011 - $47.05).

## 9. SEGMENTED INFORMATION

The amounts below include transactions between segments, which are recorded at fair value at the date of recognition.

| | Three Months Ended March 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| ($M) | Canada | France | Netherlands | Australia | Ireland | Total |
| Total assets | 1,181,389 | 727,854 | 145,102 | 260,736 | 511,918 | 2,826,999 |
| Drilling and development | 65,546 | 5,727 | 2,473 | 4,544 | 9,606 | 87,896 |
| Exploration and evaluation | 6,367 | - | 97 | - | - | 6,464 |
| **Operating Income (Loss)** | | | | | | |
| Oil and gas sales to external customers | 80,526 | 103,511 | 31,820 | 94,631 | - | 310,488 |
| Royalties | (8,969) | (5,483) | - | - | - | (14,452) |
| Revenue from external customers | 71,557 | 98,028 | 31,820 | 94,631 | - | 296,036 |
| Realized loss on derivative instruments | (638) | (4,914) | - | (166) | - | (5,718) |
| Transportation expense | (2,044) | (2,648) | - | - | (2,001) | (6,693) |
| Operating expense | (14,267) | (15,102) | (4,109) | (14,075) | - | (47,553) |
| Operating income (loss) | 54,608 | 75,364 | 27,711 | 80,390 | (2,001) | 236,072 |
| Corporate income taxes | 442 | 12,895 | 9,057 | 9,970 | - | 32,364 |
| PRRT | - | - | - | 27,269 | - | 27,269 |
| Current income taxes | 442 | 12,895 | 9,057 | 37,239 | - | 59,633 |

| | Three Months Ended March 31, 2011 | | | | | |
|---|---|---|---|---|---|---|
| ($M) | Canada | France | Netherlands | Australia | Ireland | Total |
| Total assets | 1,170,767 | 532,978 | 119,725 | 267,344 | 437,904 | 2,528,718 |
| Drilling and development | 82,037 | 16,849 | 5,538 | 2,426 | 9,983 | 116,833 |
| Exploration and evaluation | - | 1,581 | - | - | - | 1,581 |
| **Operating Income (Loss)** | | | | | | |
| Oil and gas sales to external customers | 54,499 | 77,874 | 23,165 | 74,202 | - | 229,740 |
| Royalties | (8,675) | (4,532) | - | - | - | (13,207) |
| Revenue from external customers | 45,824 | 73,342 | 23,165 | 74,202 | - | 216,533 |
| Realized loss on derivative instruments | (311) | (1,528) | - | (2,116) | - | (3,955) |
| Transportation expense | (1,515) | (2,371) | - | - | (2,198) | (6,084) |
| Operating expense | (12,582) | (9,724) | (4,401) | (11,141) | - | (37,848) |
| Operating income (loss) | 31,416 | 59,719 | 18,764 | 60,945 | (2,198) | 168,646 |
| Corporate income taxes | 329 | 15,982 | 2,757 | 7,238 | - | 26,306 |
| PRRT | - | - | - | 23,293 | - | 23,293 |
| Current income taxes | 329 | 15,982 | 2,757 | 30,531 | - | 49,599 |

## 9. SEGMENTED INFORMATION (Continued)

### Reconciliation of operating income to net earnings

| ($M) | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 |
|---|---|---|
| Operating income | **236,072** | 168,646 |
| Equity based compensation | **(10,055)** | (8,226) |
| Unrealized loss on derivative instruments | **(8,339)** | (46,963) |
| Interest expense | **(6,101)** | (5,374) |
| General and administration | **(10,148)** | (12,107) |
| Foreign exchange gain | **4,427** | 13,284 |
| Other loss | **(7,983)** | (352) |
| Accretion | **(5,238)** | (6,315) |
| Depletion and depreciation | **(75,848)** | (51,714) |
| Impairments | **(65,800)** | - |
| Gain on acquisitions | **45,309** | - |
| Earnings before income taxes | **96,296** | 50,879 |
| Income taxes | **(31,202)** | (23,686) |
| Net earnings | **65,094** | 27,193 |

## 10. CAPITAL DISCLOSURES

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

| ($M except as noted below) | Three Months Ended March 31, 2012 | Three Months Ended March 31, 2011 |
|---|---|---|
| Long-term debt | **373,798** | 376,053 |
| Current liabilities | **493,465** | 464,825 |
| Current assets | **(337,232)** | (399,560) |
| Net debt [1] | **530,031** | 441,318 |
| Cash flows from operating activities | **124,887** | 126,617 |
| Changes in non-cash operating working capital | **25,469** | (26,463) |
| Asset retirement obligations settled | **766** | 1,631 |
| Fund flows from operations | **151,122** | 101,785 |
| Annualized fund flows from operations [2] | **604,488** | 407,140 |
| Ratio of net debt to annualized fund flows from operations ([1] ÷ [2]) | **0.9** | 1.1 |

For the first quarter of 2012, the ratio of net debt to annualized fund flows from operations was 0.9. This was lower than for the same period in 2011 as a result of increased fund flows from operations, partially offset by increased net debt year over year. The increase in debt levels resulted from the larger 2011 and current 2012 capital program and acquisitions.

Vermilion is subject to certain externally imposed capital requirements under its revolving credit facility. During the periods covered by these condensed consolidated interim financial statements, Vermilion continued to comply with these requirements.

## 11. FINANCIAL INSTRUMENTS

*Market risk:*

Vermilion's financial instruments are exposed to currency risk related to changes in foreign currency denominated financial instruments and commodity price risk related to outstanding derivative positions. The following table summarizes what the impact on comprehensive income before tax would be for the three months ended March 31, 2012 given changes in the relevant risk variables that Vermilion considers were reasonably possible at the respective balance sheet dates. The impact on comprehensive income before tax associated with changes in these risk variables for assets and liabilities that are not considered financial instruments are excluded from this analysis. This analysis does not attempt to reflect any interdependencies between the relevant risk variables.

| Risk ($M except per bbl) | Description of change in risk variable | March 31, 2012<br>Before tax effect on comprehensive income<br>Increase (Decrease) |
|---|---|---|
| Currency risk - Euro to Canadian | **Increase** in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on March 31, 2012 | (6,046) |
| | **Decrease** in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on March 31, 2012 | 6,046 |
| Currency risk - US $ to Canadian | **Increase** in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on March 31, 2012 | 5,224 |
| | **Decrease** in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on March 31, 2012 | (5,224) |
| Currency risk - AUD $ to Canadian | **Increase** in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on March 31, 2012 | 868 |
| | **Decrease** in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on March 31, 2012 | (868) |
| Commodity price risk | **Increase** in relevant oil reference price within option pricing models used to determine the fair value of financial derivative positions by US$5.00/bbl at March 31, 2012 | (6,896) |
| | **Decrease** in relevant oil reference price within option pricing models used to determine the fair value of financial derivative positions by US$5.00/bbl at March 31, 2012 | 6,114 |

Reasonably possible changes in interest rates and natural gas prices would not have had a material impact on comprehensive income for the three months ended March 31, 2012.

# 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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