VERMILION ENERGY

Q2 2012

VERMILION ENERGY INC.

FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 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;
- petroleum and natural gas sales;
- 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, including the payment of future dividends;
- royalty rates;
- the timing of regulatory proceedings and approvals;
- the timing of first commercial natural gas from the Corrib field; and
- estimate of Vermilion's share of the expected natural gas production 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 crude oil, natural gas liquids 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 crude oil, natural gas liquids and natural gas prices; and
- Management's expectations relating to the timing and results of exploration and 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, natural gas liquids and natural gas and market demand;
- risks and uncertainties involving geology of crude oil, natural gas liquids 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 on acceptable terms;
- fluctuations in crude oil, natural gas liquids 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 exploration and development 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	June 30, 2012	December 31, 2011
ASSETS			
Current			
Cash and cash equivalents		**157,473**	234,507
Accounts receivable		**136,307**	176,820
Crude oil inventory		**19,293**	13,885
Derivative instruments		**1,706**	186
Prepaid expenses		**10,361**	10,261
		325,140	435,659
Deferred taxes		**190,484**	175,545
Exploration and evaluation assets	4	**113,351**	92,301
Capital assets	3	**2,187,158**	2,031,682
		2,816,133	2,735,187
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**214,122**	297,756
Dividends payable	7	**18,683**	18,322
Derivative instruments		**2,179**	11,568
Income taxes payable		**30,014**	36,407
Amount due pursuant to acquisition		**132,485**	127,131
		397,483	491,184
Derivative instruments		**-**	767
Long-term debt	6	**452,267**	373,436
Asset retirement obligations	5	**359,049**	310,531
Deferred taxes		**236,684**	227,668
		1,445,483	1,403,586
SHAREHOLDERS' EQUITY			
Shareholders' capital	7	**1,445,592**	1,368,145
Contributed surplus		**42,392**	56,468
Accumulated other comprehensive loss		**(42,417)**	(33,387)
Deficit		**(74,917)**	(59,625)
		1,370,650	1,331,601
		2,816,133	2,735,187

APPROVED BY THE BOARD

("W. Kenneth Davidson")

W. Kenneth Davidson, Director

("Lorenzo Donadeo")

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 June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
REVENUE					
Petroleum and natural gas sales		**246,544**	278,297	**557,032**	508,037
Royalties		**(13,331)**	(12,540)	**(27,783)**	(25,747)
Petroleum and natural gas revenue		**233,213**	265,757	**529,249**	482,290
EXPENSES					
Operating		**40,225**	40,735	**87,778**	78,583
Transportation		**6,218**	5,966	**12,911**	12,050
Equity based compensation	8	**9,861**	6,682	**19,916**	14,908
(Gain) loss on derivative instruments		**(16,424)**	(16,004)	**(2,367)**	34,914
Interest expense		**6,600**	6,569	**12,701**	11,943
General and administration		**12,068**	11,348	**22,216**	23,455
Foreign exchange loss (gain)		**15,975**	(2,370)	**11,548**	(15,654)
Other expense	2	**585**	804	**8,568**	1,156
Accretion	5	**5,792**	4,403	**11,030**	10,718
Depletion and depreciation	3, 4	**76,512**	59,583	**152,360**	111,297
Impairments	3	**-**	-	**65,800**	-
Gain on acquisition	2	**-**	-	**(45,309)**	-
		157,412	117,716	**357,152**	283,370
EARNINGS BEFORE INCOME TAXES		**75,801**	148,041	**172,097**	198,920
INCOME TAXES					
Deferred		**300**	(5,016)	**(28,131)**	(30,929)
Current		**37,685**	71,628	**97,318**	121,227
		37,985	66,612	**69,187**	90,298
NET EARNINGS		**37,816**	81,429	**102,910**	108,622
OTHER COMPREHENSIVE (LOSS) INCOME					
Currency translation adjustments		**(16,411)**	11,154	**(9,030)**	21,751
COMPREHENSIVE INCOME		**21,405**	92,583	**93,880**	130,373
NET EARNINGS PER SHARE					
Basic		**0.39**	0.90	**1.06**	1.21
Diluted		**0.38**	0.89	**1.04**	1.19
WEIGHTED AVERAGE SHARES OUTSTANDING ('000s)					
Basic		**97,937**	90,135	**97,291**	89,682
Diluted		**99,923**	91,514	**99,000**	90,902

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

		Three Months Ended		Six Months Ended	
	Note	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
OPERATING					
Net earnings		**37,816**	81,429	**102,910**	108,622
Adjustments:					
Accretion	5	**5,792**	4,403	**11,030**	10,718
Depletion and depreciation	3, 4	**76,512**	59,583	**152,360**	111,297
Impairments	3	**-**	-	**65,800**	-
Gain on acquisition	2	**-**	-	**(45,309)**	-
Unrealized (gain) loss on derivative instruments		**(20,015)**	(26,441)	**(11,676)**	20,522
Equity based compensation	8	**9,861**	6,682	**19,916**	14,908
Unrealized foreign exchange loss (gain)		**16,730**	(2,108)	**11,483**	(15,212)
Unrealized other expense		**779**	767	**514**	1,158
Deferred taxes		**300**	(5,016)	**(28,131)**	(30,929)
Asset retirement obligations settled	5	**(2,581)**	(9,612)	**(3,347)**	(11,243)
Changes in non-cash operating working capital		**(1,709)**	(47,757)	**(27,178)**	(21,294)
Cash flows from operating activities		**123,485**	61,930	**248,372**	188,547
INVESTING					
Drilling and development	3	**(77,956)**	(75,584)	**(165,852)**	(192,417)
Exploration and evaluation	4	**(16,932)**	(9,750)	**(23,396)**	(11,331)
Property acquisitions	2, 3	**-**	190	**(106,184)**	(38,101)
Changes in non-cash investing working capital		**(23,030)**	(42,721)	**(29,784)**	(13,401)
Cash flows used in investing activities		**(117,918)**	(127,865)	**(325,216)**	(255,250)
FINANCING					
Increase (decrease) in long-term debt		**76,774**	(6,687)	**76,774**	65,906
Issuance of shares pursuant to the dividend reinvestment plan	7	**18,781**	14,084	**36,339**	27,060
Cash dividends		**(55,678)**	(51,333)	**(110,725)**	(102,112)
Cash flows from (used in) financing activities		**39,877**	(43,936)	**2,388**	(9,146)
Foreign exchange (loss) gain on cash held in foreign currencies		**(2,608)**	542	**(2,578)**	2,711
Net change in cash and cash equivalents		**42,836**	(109,329)	**(77,034)**	(73,138)
Cash and cash equivalents, beginning of period		**114,637**	196,946	**234,507**	160,755
Cash and cash equivalents, end of period		**157,473**	87,617	**157,473**	87,617
Supplementary information for operating activities - cash payments					
Interest paid		**4,419**	4,129	**13,926**	6,495
Income taxes paid		**84,012**	100,076	**103,711**	107,620

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

	Note	Shareholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
Balances as at January 1, 2011		1,025,770	40,726	(31,577)	10,983	1,045,902
Net earnings		-	-	-	108,622	108,622
Currency translation adjustments		-	-	21,751	-	21,751
Equity based compensation expense		-	14,122	-	-	14,122
Dividends declared		-	-	-	(102,363)	(102,363)
Issuance of shares pursuant to the dividend reinvestment plan	7	27,060	-	-	-	27,060
Vesting of equity based awards	7, 8	22,050	(22,050)	-	-	-
Share-settled dividends on vested equity based awards	7, 8	5,555	-	-	(5,555)	-
Shares issued for bonus plan	7	786	-	-	-	786
Balances as at June 30, 2011		1,081,221	32,798	(9,826)	11,687	1,115,880

	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		-	-	-	102,910	102,910
Currency translation adjustments		-	-	(9,030)	-	(9,030)
Equity based compensation expense		-	19,280	-	-	19,280
Dividends declared	7	-	-	-	(111,086)	(111,086)
Issuance of shares pursuant to the dividend reinvestment plan	7	36,339	-	-	-	36,339
Vesting of equity based awards	7, 8	33,356	(33,356)	-	-	-
Share-settled dividends on vested equity based awards	7, 8	7,116	-	-	(7,116)	-
Shares issued for bonus plan	7	636	-	-	-	636
Balances as at June 30, 2012		1,445,592	42,392	(42,417)	(74,917)	1,370,650

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. 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 consolidated net 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 crude oil and natural gas exploration, 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 are contained within Vermilion's Annual Report for the year ended December 31, 2011 and are 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 August 1, 2012.

2. BUSINESS COMBINATION

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. A gain of $45.3 million was recognized as a result of an increase in the fair value of the acquired petroleum and natural gas reserves from the time when the acquisition was negotiated to the acquisition date. The increase resulted from a change in the underlying commodity price forecasts used to determine the fair value of the acquired reserves.

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 as follows:

($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 deficiencies	(4,098)
Net assets acquired	151,424
Gain on acquisition	(45,309)
Net assets acquired, net of gain on acquisition	106,115

Transfer taxes associated with this acquisition totalling $8.5 million have been excluded from the consideration and have been recognized as an expense in the six months ended June 30, 2012, within "Other expense" in the consolidated statements of net earnings and comprehensive income.

2. BUSINESS COMBINATION (Continued)

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 $49.2 million and operating income of $43.7 million for the six months ended June 30, 2012. 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 six months ended June 30, 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)
Impairments	(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	263,790	2,138	265,928
Property acquisitions	106,184	-	106,184
Borrowing costs capitalized	5,028	-	5,028
Changes in estimate for asset retirement obligations	16,885	-	16,885
Depletion and depreciation	(147,750)	(2,841)	(150,591)
Impairments	(65,800)	-	(65,800)
Effect of movements in foreign exchange rates	(22,088)	(70)	(22,158)
Balance at June 30, 2012	2,172,860	14,298	2,187,158

Vermilion has not identified indicators of impairment or impairment reversal for any CGU's for the three months ended June 30, 2012 and therefore has not performed impairment testing calculations.

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 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.

3. CAPITAL ASSETS (Continued)

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 natural 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	23,396
Depreciation	(1,769)
Effect of movements in foreign exchange rates	(577)
Balance at June 30, 2012	113,351

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	29,618
Obligations settled	(3,347)
Accretion	11,030
Changes in discount rates	14,785
Effect of movements in foreign exchange rates	(3,568)
Balance at June 30, 2012	359,049

6. LONG-TERM DEBT

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

	As At	
($M)	June 30, 2012	Dec 31, 2011
Revolving credit facility	**230,473**	152,086
Senior unsecured notes	**221,794**	221,350
Total long-term debt	**452,267**	373,436

Revolving Credit Facility

At June 30, 2012, Vermilion had in place a bank revolving credit facility totalling $950 million. The facility, which matures in May 2015, 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 totalling $7.4 million as at June 30, 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	830,020	36,339
Vesting of equity based awards	900,340	33,356
Share-settled dividends on vested equity based awards	156,387	7,116
Shares issued for bonus plan	13,167	636
Balance as at June 30, 2012	98,330,049	1,445,592

Dividends declared to shareholders for the six months ended June 30, 2012 were $111.1 million.

Subsequent to the end of the period and prior to the condensed consolidated interim financial statements being authorized for issue on August 1, 2012, Vermilion declared dividends totalling $18.7 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	**528,326**	566,425
Vested	**(593,843)**	(434,150)
Forfeited	**(86,348)**	(65,996)
Closing balance	**1,598,190**	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 six months ended June 30, 2012, the awards granted had a weighted average fair value of $58.04 (2011 - $47.05).

9. SEGMENTED INFORMATION

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

	Three Months Ended June 30, 2012					
($M)	Canada	France	Netherlands	Australia	Ireland	Total
Drilling and development	38,476	10,281	5,427	9,867	13,905	77,956
Exploration and evaluation	16,980	-	(48)	-	-	16,932
Operating Income (Loss)						
Oil and gas sales to external customers	74,932	94,828	30,062	46,722	-	246,544
Royalties	(8,216)	(5,115)	-	-	-	(13,331)
Revenue from external customers	66,716	89,713	30,062	46,722	-	233,213
Realized loss on derivative instruments	(423)	(3,000)	-	(168)	-	(3,591)
Transportation expense	(2,350)	(1,894)	-	-	(1,974)	(6,218)
Operating expense	(13,217)	(13,755)	(5,457)	(7,796)	-	(40,225)
Operating income (loss)	50,726	71,064	24,605	38,758	(1,974)	183,179
Corporate income taxes	845	15,725	5,875	6,780	-	29,225
PRRT	-	-	-	8,460	-	8,460
Current income taxes	845	15,725	5,875	15,240	-	37,685

	Three Months Ended June 30, 2011					
($M)	Canada	France	Netherlands	Australia	Ireland	Total
Drilling and development	33,415	15,645	5,598	4,473	16,453	75,584
Exploration and evaluation	7,760	1,990	-	-	-	9,750
Operating Income (Loss)						
Oil and gas sales to external customers	61,110	82,664	29,426	105,097	-	278,297
Royalties	(7,778)	(4,762)	-	-	-	(12,540)
Revenue from external customers	53,332	77,902	29,426	105,097	-	265,757
Realized loss on derivative instruments	(710)	(4,617)	-	(5,110)	-	(10,437)
Transportation expense	(1,471)	(2,225)	-	-	(2,270)	(5,966)
Operating expense	(13,448)	(11,536)	(3,954)	(11,797)	-	(40,735)
Operating income (loss)	37,703	59,524	25,472	88,190	(2,270)	208,619
Corporate income taxes	495	18,548	6,390	10,235	-	35,668
PRRT	-	-	-	35,960	-	35,960
Current income taxes	495	18,548	6,390	46,195	-	71,628

9. SEGMENTED INFORMATION (Continued)

	Six Months Ended June 30, 2012					
($M)	**Canada**	**France**	**Netherlands**	**Australia**	**Ireland**	**Total**
Total assets	1,170,481	701,189	142,612	285,474	516,377	2,816,133
Drilling and development	104,022	16,008	7,900	14,411	23,511	165,852
Exploration and evaluation	23,347	-	49	-	-	23,396
Operating Income (Loss)						
Oil and gas sales to external customers	155,458	198,339	61,882	141,353	-	557,032
Royalties	(17,185)	(10,598)	-	-	-	(27,783)
Revenue from external customers	138,273	187,741	61,882	141,353	-	529,249
Realized loss on derivative instruments	(1,061)	(7,914)	-	(334)	-	(9,309)
Transportation expense	(4,394)	(4,542)	-	-	(3,975)	(12,911)
Operating expense	(27,484)	(28,857)	(9,566)	(21,871)	-	(87,778)
Operating income (loss)	105,334	146,428	52,316	119,148	(3,975)	419,251
Corporate income taxes	1,287	28,620	14,932	16,750	-	61,589
PRRT	-	-	-	35,729	-	35,729
Current income taxes	1,287	28,620	14,932	52,479	-	97,318

	Six Months Ended June 30, 2011					
($M)	**Canada**	**France**	**Netherlands**	**Australia**	**Ireland**	**Total**
Total assets	1,041,809	550,407	126,524	262,188	474,245	2,455,173
Drilling and development	115,452	32,494	11,136	6,899	26,436	192,417
Exploration and evaluation	7,760	3,571	-	-	-	11,331
Operating Income (Loss)						
Oil and gas sales to external customers	115,609	160,538	52,591	179,299	-	508,037
Royalties	(16,453)	(9,294)	-	-	-	(25,747)
Revenue from external customers	99,156	151,244	52,591	179,299	-	482,290
Realized loss on derivative instruments	(1,021)	(6,145)	-	(7,226)	-	(14,392)
Transportation expense	(2,986)	(4,596)	-	-	(4,468)	(12,050)
Operating expense	(26,030)	(21,260)	(8,355)	(22,938)	-	(78,583)
Operating income (loss)	69,119	119,243	44,236	149,135	(4,468)	377,265
Corporate income taxes	824	34,530	9,147	17,473	-	61,974
PRRT	-	-	-	59,253	-	59,253
Current income taxes	824	34,530	9,147	76,726	-	121,227

Reconciliation of operating income to net earnings

	Three Months Ended		Six Months Ended	
($M)	**June 30, 2012**	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
Operating income	**183,179**	208,619	**419,251**	377,265
Equity based compensation	**(9,861)**	(6,682)	**(19,916)**	(14,908)
Unrealized gain (loss) on derivative instruments	**20,015**	26,441	**11,676**	(20,522)
Interest expense	**(6,600)**	(6,569)	**(12,701)**	(11,943)
General and administration	**(12,068)**	(11,348)	**(22,216)**	(23,455)
Foreign exchange (loss) gain	**(15,975)**	2,370	**(11,548)**	15,654
Other expense	**(585)**	(804)	**(8,568)**	(1,156)
Accretion	**(5,792)**	(4,403)	**(11,030)**	(10,718)
Depletion and depreciation	**(76,512)**	(59,583)	**(152,360)**	(111,297)
Impairments	**-**	-	**(65,800)**	-
Gain on acquisition	**-**	-	**45,309**	-
Earnings before income taxes	**75,801**	148,041	**172,097**	198,920
Income taxes	**(37,985)**	(66,612)	**(69,187)**	(90,298)
Net earnings	**37,816**	81,429	**102,910**	108,622

10. CAPITAL DISCLOSURES

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

($M except as indicated)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Long-term debt	**452,267**	367,923	**452,267**	367,923
Current liabilities	**397,483**	332,364	**397,483**	332,364
Current assets	**(325,140)**	(265,738)	**(325,140)**	(265,738)
Net debt [1]	**524,610**	434,549	**524,610**	434,549
Cash flows from operating activities	**123,485**	61,930	**248,372**	188,547
Changes in non-cash operating working capital	**1,709**	47,757	**27,178**	21,294
Asset retirement obligations settled	**2,581**	9,612	**3,347**	11,243
Fund flows from operations	**127,775**	119,299	**278,897**	221,084
Annualized fund flows from operations [2]	**511,100**	477,196	**557,794**	442,168
Ratio of net debt to annualized fund flows from operations ([1] ÷ [2])	**1.0**	0.9	**0.9**	1.0

For the three and six months ended June 30, 2012, the ratio of net debt to annualized fund flows from operations was 1.0 and 0.9, respectively. This ratio was higher in the three months ended June 30, 2012 compared to the same period in 2011 as a result of increased net debt. The increase in debt levels resulted from the 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 six months ended June 30, 2012 given changes in the relevant risk variables that Vermilion considers were reasonably possible at the balance sheet date. 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)	Description of change in risk variable	June 30, 2012 Before tax effect on comprehensive income 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 June 30, 2012	(6,154)
	Decrease in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on June 30, 2012	6,154
Currency risk - US $ to Canadian	**Increase** in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on June 30, 2012	4,170
	Decrease in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on June 30, 2012	(4,170)
Currency risk - AUD $ to Canadian	**Increase** in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on June 30, 2012	(1,085)
	Decrease in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on June 30, 2012	1,085
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 June 30, 2012	(2,143)
	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 June 30, 2012	2,953

Reasonably possible changes in interest rates and natural gas prices would not have had a material impact on comprehensive income for the six months ended June 30, 2012.

Corporate Information

VERMILION ENERGY

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
NGLs	natural gas liquids
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

Anthony (Tony) Marino, P.Eng.
Executive Vice President & COO

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

Terry Hergott, CMA
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

Mike Prinz
Director Information Technology

Gerardo Rivera
Director Strategy and Portfolio Management

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

EUROPE

Gerard Schut, 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

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