Vermilion Energy Inc.

2014 Second Quarter Financial Statements

DEFINED PRODUCTION GROWTH
RELIABLE & GROWING DIVIDENDS

DISCLAIMER

Certain statements included or incorporated by reference in this document may constitute forward looking statements or financial outlooks under applicable securities legislation. Such 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; operational and financial performance; estimated reserve quantities and the discounted present value of future net cash flows from such reserves; petroleum and natural gas sales; future production levels (including the timing thereof) and rates of average annual production growth; estimated contingent resources and prospective resources; exploration and development plans; acquisition and disposition plans and the timing thereof; operating and other expenses, including the payment and amount of future dividends; royalty and income tax rates; the timing of regulatory proceedings and approvals; and the timing of first commercial natural gas and the 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. Financial outlooks are provided for the purpose of understanding Vermilion's financial position and business objectives and the information may not be appropriate for other purposes. 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; 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 and estimates of resources and associated expenditures; the uncertainty of estimates and projections relating to production and associated expenditures; potential delays or changes in plans with respect to exploration or development projects; 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; 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.

All oil and natural gas reserve information contained in this document has been prepared and presented in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. The actual oil and natural gas reserves and future production will be greater than or less than the estimates provided in this document. The estimated future net revenue from the production of oil and natural gas reserves does not represent the fair market value of these reserves.

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.

Financial data contained within this document are reported in Canadian dollars, unless otherwise stated.

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF CANADIAN DOLLARS, UNAUDITED)

	Note	June 30, 2014	December 31, 2013
ASSETS			
Current			
Cash and cash equivalents		**165,497**	389,559
Accounts receivable		**199,251**	167,618
Crude oil inventory		**17,952**	17,143
Derivative instruments		**7,624**	2,285
Prepaid expenses		**17,254**	11,178
		407,578	587,783
Deferred taxes		**148,173**	184,832
Exploration and evaluation assets	5	**332,122**	136,259
Capital assets	4	**3,496,542**	2,799,845
		4,384,415	3,708,719
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**264,249**	267,832
Dividends payable	8	**22,923**	20,425
Derivative instruments		**7,787**	3,572
Income taxes payable		**82,751**	55,615
		377,710	347,444
Long-term debt	7	**1,198,866**	990,024
Asset retirement obligations	6	**390,054**	326,162
Deferred taxes		**401,317**	328,714
		2,367,947	1,992,344
SHAREHOLDERS' EQUITY			
Shareholders' capital	8	**1,917,334**	1,618,443
Contributed surplus		**59,343**	75,427
Accumulated other comprehensive income		**49,883**	47,142
Deficit		**(10,092)**	(24,637)
		2,016,468	1,716,375
		4,384,415	3,708,719

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 Jun 30, 2014	Three Months Ended Jun 30, 2013	Six Months Ended Jun 30, 2014	Six Months Ended Jun 30, 2013
REVENUE					
Petroleum and natural gas sales		**387,684**	311,966	**768,867**	621,542
Royalties		**(29,013)**	(15,800)	**(53,037)**	(31,590)
Petroleum and natural gas revenue		**358,671**	296,166	**715,830**	589,952
EXPENSES					
Operating		**58,213**	48,082	**116,199**	100,657
Transportation		**12,032**	6,653	**21,893**	13,294
Equity based compensation	9	**18,217**	10,724	**34,689**	26,860
Gain on derivative instruments		**(898)**	(10,421)	**(7,473)**	(6,521)
Interest expense		**12,334**	9,336	**23,794**	18,025
General and administration		**17,762**	11,313	**32,229**	23,923
Foreign exchange loss (gain)		**23,159**	(29,297)	**3,200**	(26,161)
Other (income) expense		**(178)**	271	**(145)**	204
Accretion	6	**5,950**	6,000	**11,662**	11,824
Depletion and depreciation	4, 5	**104,902**	78,418	**204,354**	159,866
		251,493	131,079	**440,402**	321,971
EARNINGS BEFORE INCOME TAXES		**107,178**	165,087	**275,428**	267,981
INCOME TAXES					
Deferred		**7,851**	9,580	**14,471**	13,627
Current		**45,334**	49,309	**104,176**	96,019
		53,185	58,889	**118,647**	109,646
NET EARNINGS		**53,993**	106,198	**156,781**	158,335
OTHER COMPREHENSIVE (LOSS) INCOME					
Currency translation adjustments		**(42,794)**	18,955	**2,741**	17,623
COMPREHENSIVE INCOME		**11,199**	125,153	**159,522**	175,958
NET EARNINGS PER SHARE					
Basic		**0.51**	1.05	**1.51**	1.58
Diluted		**0.50**	1.04	**1.49**	1.56
WEIGHTED AVERAGE SHARES OUTSTANDING ('000s)					
Basic		**105,577**	100,964	**103,936**	100,137
Diluted		**107,330**	102,223	**105,531**	101,578

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

	Note	Three Months Ended Jun 30, 2014	Three Months Ended Jun 30, 2013	Six Months Ended Jun 30, 2014	Six Months Ended Jun 30, 2013
OPERATING					
Net earnings		**53,993**	106,198	**156,781**	158,335
Adjustments:					
Accretion	6	**5,950**	6,000	**11,662**	11,824
Depletion and depreciation	4, 5	**104,902**	78,418	**204,354**	159,866
Unrealized loss (gain) on derivative instruments		**1,521**	(8,651)	**(2,414)**	(7,538)
Equity based compensation	9	**18,217**	10,724	**34,689**	26,860
Unrealized foreign exchange loss (gain)		**23,746**	(28,025)	**1,746**	(25,506)
Unrealized other (income) expense		**(104)**	348	**150**	753
Deferred taxes		**7,851**	9,580	**14,471**	13,627
Asset retirement obligations settled	6	**(2,381)**	(2,370)	**(5,032)**	(3,758)
Changes in non-cash operating working capital		**(64,103)**	6,852	**(88,577)**	35,323
Cash flows from operating activities		**149,592**	179,074	**327,830**	369,786
INVESTING					
Drilling and development	4	**(117,975)**	(75,005)	**(286,815)**	(254,525)
Exploration and evaluation	5	**(17,098)**	(3,113)	**(44,633)**	(12,689)
Property acquisitions	3, 4, 5	**-**	-	**(178,227)**	-
Dispositions	4	**-**	-	**-**	8,627
Corporate acquisitions, net of cash acquired	3	**(176,179)**	-	**(176,179)**	-
Changes in non-cash investing working capital		**(24,010)**	(75,613)	**15,463**	(37,403)
Cash flows used in investing activities		**(335,262)**	(153,731)	**(670,391)**	(295,990)
FINANCING					
Increase in long-term debt		**255,727**	70,000	**205,727**	139,429
Cash dividends		**(48,665)**	(41,754)	**(94,185)**	(84,778)
Cash flows from financing activities		**207,062**	28,246	**111,542**	54,651
Foreign exchange (loss) gain on cash held in foreign currencies		**(7,232)**	5,496	**6,957**	5,026
Net change in cash and cash equivalents		**14,160**	59,085	**(224,062)**	133,473
Cash and cash equivalents, beginning of period		**151,337**	176,513	**389,559**	102,125
Cash and cash equivalents, end of period		**165,497**	235,598	**165,497**	235,598
Supplementary information for operating activities - cash payments					
Interest paid		**11,721**	8,417	**25,815**	20,509
Income taxes paid		**56,486**	18,669	**77,560**	51,304

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

	Note	Shareholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
Balances as at January 1, 2013		1,481,345	69,581	(32,409)	(99,871)	1,418,646
Net earnings		-	-	-	158,335	158,335
Currency translation adjustments		-	-	17,623	-	17,623
Equity based compensation expense	9	-	26,231	-	-	26,231
Dividends declared	8	-	-	-	(120,388)	(120,388)
Shares issued pursuant to the dividend reinvestment plan	8	34,162	-	-	-	34,162
Vesting of equity based awards	8, 9	54,370	(54,370)	-	-	-
Share-settled dividends on vested equity based awards	8, 9	9,808	-	-	(9,808)	-
Shares issued pursuant to the bonus plan	8	629	-	-	-	629
Balances as at June 30, 2013		1,580,314	41,442	(14,786)	(71,732)	1,535,238

	Note	Shareholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
Balances as at January 1, 2014		1,618,443	75,427	47,142	(24,637)	1,716,375
Net earnings		-	-	-	156,781	156,781
Currency translation adjustments		-	-	2,741	-	2,741
Equity based compensation expense	9	-	33,968	-	-	33,968
Dividends declared	8	-	-	-	(134,717)	(134,717)
Shares issued pursuant to the dividend reinvestment plan	8	38,034	-	-	-	38,034
Shares issued pursuant to corporate acquisition	3	204,960	-	-	-	204,960
Modification of equity based awards	9	-	(2,395)			(2,395)
Vesting of equity based awards	8, 9	47,657	(47,657)	-	-	-
Share-settled dividends on vested equity based awards	8, 9	7,519	-	-	(7,519)	-
Shares issued pursuant to the bonus plan	8	721	-	-	-	721
Balances as at June 30, 2014		1,917,334	59,343	49,883	(10,092)	2,016,468

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 income
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.

Deficit
Represents the cumulative net earnings less distributed earnings of Vermilion Energy Inc.

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, 2013, except as discussed in Note 2.

These condensed consolidated interim financial statements should be read in conjunction with Vermilion's consolidated financial statements for the year ended December 31, 2013, which are contained within Vermilion's Annual Report for the year ended December 31, 2013 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 July 30, 2014.

2. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

On January 1, 2014, Vermilion adopted the following pronouncements as issued by the IASB. The adoption of these standards did not have a material impact on Vermilion's consolidated financial statements.

IFRIC 21 "Levies"
On May 20, 2013, the IASB issued guidance under IFRIC 21, which provides clarification on accounting for levies in accordance with the requirements of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that a liability for a levy is recognized only when the triggering event specified in the legislation occurs. The interpretation is effective for annual periods beginning on or after January 1, 2014.

IAS 36 "Impairment of Assets"
On May 29, 2013, the IASB issued amendments to IAS 36 "Impairment of Assets" which reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. This amendment is effective for annual periods beginning on or after January 1, 2014.

Accounting pronouncements not yet adopted

The impact of the adoption of the following pronouncement is currently being evaluated.

IFRS 15 "Revenue from Contracts with Customers"
On May 28, 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", a new standard that specifies recognition requirements for revenue as well as requiring entities to provide the users of financial statements with more informative and relevant disclosures. The standard replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" as well as a number of revenue-related interpretations. Vermilion will adopt the standard for reporting periods beginning January 1, 2017.

3. BUSINESS COMBINATIONS

Property acquisition:

Germany

In February of 2014, Vermilion acquired, through a wholly-owned subsidiary, GDF's 25% interest in four producing natural gas fields and a surrounding exploration license located in northwest Germany. GDF is an affiliate of GDF Suez S.A., a publicly traded, French multinational utility. The acquisition represents Vermilion's entry into the German E&P business, a producing region with a long history of oil and gas development activity, low political risk and strong marketing fundamentals. The acquisition is well aligned with Vermilion's European focus, and will increase its exposure to the strong fundamentals and pricing of the European natural gas markets. The acquisition closed in February of 2014 for cash proceeds of $172.9 million. Vermilion funded this acquisition with existing credit facilities.

The acquired assets comprise of four gas producing fields across eleven production licenses and include both exploration and production licenses that comprise a total of 207,000 gross acres, of which 85% is in the exploration license.

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	172,871
Total consideration	172,871

($M)	Allocation of Consideration
Petroleum and natural gas assets	158,840
Exploration and evaluation	16,065
Asset retirement obligations assumed	(2,030)
Deferred tax liabilities	(4)
Net assets acquired	172,871

The results of operations from the assets acquired have been included in Vermilion's consolidated financial statements beginning February of 2014 and have contributed revenues of $20.0 million and net earnings $0.4 million for the six months ended June 30, 2014.

Had the acquisition occurred on January 1, 2014, management estimates that consolidated revenues would have increased by an additional $4.6 million and consolidated net earnings would have increased by $0.9 million for the six months ended June 30, 2014.

Corporate acquisition:

Elkhorn Resources Inc.

On April 29, 2014, Vermilion acquired Elkhorn Resources Inc., a private southeast Saskatchewan producer. The acquisition creates a new core area for Vermilion in the Williston Basin.

The acquired assets include approximately 57,000 net acres of land (approximately 80% undeveloped), seven oil batteries, and preferential access to 50% or greater capacity at a solution gas facility that is currently under construction. Vermilion funded this acquisition with existing credit facilities.

Total consideration was comprised of $180.4 million of cash and the issuance of 2.8 million Vermilion common shares valued at approximately $205.0 million (based on the closing price per Vermilion common share of $72.50 on the Toronto Stock Exchange on April 29, 2014).

3. BUSINESS COMBINATIONS (Continued)

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 shareholders of Elkhorn Resources Inc.	180,353
Shares issued pursuant to corporate acquisition	204,960
Total consideration	385,313

($M)	Allocation of Consideration
Petroleum and natural gas assets	390,523
Exploration and evaluation	138,264
Asset retirement obligations assumed	(5,974)
Deferred tax liabilities	(89,437)
Long-term debt assumed	(47,526)
Cash acquired	4,174
Acquired non-cash working capital deficiency	(4,711)
Net assets acquired (1)	385,313

(1) The above amounts are estimates made by management at the time of the preparation of these condensed consolidated interim financial statements based on information then available. Amendments may be made as amounts subject to estimates are finalized.

The results of operations from the assets acquired have been included in Vermilion's consolidated financial statements beginning April 29, 2014 and have contributed revenues of $16.0 million and operating income of $13.0 million for the six months ended June 30, 2014.

Had the acquisition occurred on January 1, 2014, management estimates that consolidated revenues would have increased by an additional $8.8 million and consolidated operating income would have increased by $7.0 million for the six months ended June 30, 2014. 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, 2014. It is impracticable to derive all amounts necessary to determine the increase to net earnings from the acquisition as the acquired company was immediately merged with Vermilion's operations.

4. 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, 2013	2,430,121	15,119	2,445,240
Additions	531,760	5,804	537,564
Transfers from exploration and evaluation assets	1,508	-	1,508
Corporate acquisitions	47,743	-	47,743
Dispositions	(8,627)	-	(8,627)
Changes in estimate for asset retirement obligations	(91,527)	-	(91,527)
Depletion and depreciation	(310,370)	(6,138)	(316,508)
Impairments	47,400	-	47,400
Effect of movements in foreign exchange rates	136,626	426	137,052
Balance at December 31, 2013	2,784,634	15,211	2,799,845
Additions	284,616	2,199	286,815
Property acquisitions	163,599	-	163,599
Corporate acquisitions	390,523	-	390,523
Changes in estimate for asset retirement obligations	46,998	-	46,998
Depletion and depreciation	(199,050)	(1,908)	(200,958)
Effect of movements in foreign exchange rates	9,632	88	9,720
Balance at June 30, 2014	3,480,952	15,590	3,496,542

5. 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, 2013	117,161
Additions	13,789
Property acquisitions	9,189
Transfers to petroleum and natural gas assets	(1,508)
Depreciation	(3,712)
Effect of movements in foreign exchange rates	1,340
Balance at December 31, 2013	136,259
Additions	44,633
Changes in estimate for asset retirement obligations	85
Property acquisitions	16,662
Corporate acquisitions	138,264
Depreciation	(3,098)
Effect of movements in foreign exchange rates	(683)
Balance at June 30, 2014	332,122

6. ASSET RETIREMENT OBLIGATIONS

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

($M)	Asset Retirement Obligations
Balance at January 1, 2013	371,063
Additional obligations recognized	15,655
Changes in estimates for existing obligations	(21,068)
Obligations settled	(11,922)
Accretion	24,565
Changes in discount rates	(73,675)
Effect of movements in foreign exchange rates	21,544
Balance at December 31, 2013	326,162
Additional obligations recognized	18,675
Obligations settled	(5,032)
Accretion	11,662
Changes in discount rates	36,412
Effect of movements in foreign exchange rates	2,175
Balance at June 30, 2014	390,054

7. LONG-TERM DEBT

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

	As At	
($M)	June 30, 2014	Dec 31, 2013
Revolving credit facility	**975,297**	766,898
Senior unsecured notes	**223,569**	223,126
Long-term debt	**1,198,866**	990,024

Revolving Credit Facility

At June 30, 2014, Vermilion had in place a bank revolving credit facility totalling $1.5 billion, of which approximately $975.3 million was drawn. In addition, Vermilion may, by adding lenders or seeking an increase to an existing lender's commitment, increase the total committed facility amount to no more than $1.75 billion. The facility, which matures on May 31, 2017, 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. For the six months ended June 30, 2014, the interest rate on the revolving credit facility was approximately 3.1%.

The amount available to Vermilion under this facility is reduced by certain outstanding letters of credit associated with Vermilion's operations totalling $10.2 million as at June 30, 2014 (December 31, 2013 - $8.1 million).

The facility is secured by various fixed and floating charges against the subsidiaries of Vermilion. Under the terms of the facility, Vermilion must maintain:

- A ratio of total bank borrowings (defined as consolidated total debt), to consolidated net earnings before interest, income taxes, depreciation, accretion and other certain non-cash items (defined as consolidated EBITDA) of not greater than 4.0.
- A ratio of consolidated total senior debt (defined as consolidated total debt excluding unsecured and subordinated debt) to consolidated EBITDA of not greater than 3.0.
- A ratio of consolidated total senior debt to total capitalization (defined as amounts classified as "Long-term debt" and "Shareholders' Equity" on the balance sheet) of less than 50%.

As at June 30, 2014, Vermilion was in compliance with its financial covenants.

Senior Unsecured Notes

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

Vermilion may redeem all or part of the notes at fixed redemption prices, plus accrued and unpaid interest, if any, to the applicable redemption date. The notes were initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost using an effective interest rate of 7.1%.

8. SHAREHOLDERS' CAPITAL

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

Shareholders' Capital	Number of Shares ('000s)	Amount ($M)
Balance as at January 1, 2013	99,135	1,481,345
Shares issued pursuant to the dividend reinvestment plan	1,402	72,291
Vesting of equity based awards	1,372	54,370
Share-settled dividends on vested equity based awards	202	9,808
Shares issued pursuant to the bonus plan	12	629
Balance as at December 31, 2013	102,123	1,618,443
Shares issued pursuant to corporate acquisition	2,827	204,960
Shares issued pursuant to the dividend reinvestment plan	601	38,034
Vesting of equity based awards	950	47,657
Share-settled dividends on vested equity based awards	108	7,519
Shares issued pursuant to the bonus plan	11	721
Balance as at June 30, 2014	106,620	1,917,334

Dividends declared to shareholders for the six months ended June 30, 2014 were $134.7 million (2013 - $120.4 million).

Subsequent to the end of the period and prior to the condensed consolidated interim financial statements being authorized for issue on July 30, 2014, Vermilion declared dividends totalling $22.9 million or $0.215 per share.

9. EQUITY BASED COMPENSATION

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

Number of Awards ('000s)	2014	2013
Opening balance	**1,665**	1,690
Granted	**563**	832
Vested	**(512)**	(749)
Modified	**(21)**	-
Forfeited	**(21)**	(108)
Closing balance	**1,674**	1,665

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.

On March 31, 2014, Vermilion modified the accounting for certain outstanding VIP awards to be settled by purchasing Vermilion common shares on the Toronto Stock Exchange upon vesting rather than by issuing common shares through treasury. Pursuant to this modification, $2.4 million was reclassified from "Contributed surplus" to "Accounts payable and accrued liabilities". Subsequent period expense relating to these outstanding awards will be recognized in "General and administration expense".

10. SEGMENTED INFORMATION

Vermilion has operations principally in Canada, France, the Netherlands, Germany, Ireland, and Australia. Vermilion's operating activities in each country relate solely to the exploration, development and production of petroleum and natural gas. Vermilion has a Corporate head office located in Calgary, Alberta. Costs incurred in the Corporate segment relate to Vermilion's global hedging program and expenses incurred in financing and managing our operating business units.

Vermilion's chief operating decision maker reviews the financial performance of the Company by assessing the fund flows from operations of each country individually. Fund flows from operations provides a measure of each business unit's ability to generate cash (that is not subject to short-term movements in non-cash operating working capital) necessary to pay dividends, fund asset retirement obligations, and make capital investments.

	Three Months Ended June 30, 2014							
($M)	Canada	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Drilling and development	26,071	34,828	18,234	630	27,221	10,991	-	117,975
Exploration and evaluation	10,897	2,786	3,279	-	-	-	136	17,098
Oil and gas sales to external customers	163,261	124,617	29,881	11,097	-	58,828	-	387,684
Royalties	(18,240)	(7,796)	(693)	(2,284)	-	-	-	(29,013)
Revenue from external customers	145,021	116,821	29,188	8,813	-	58,828	-	358,671
Transportation expense	(4,024)	(5,385)	-	(1,052)	(1,571)	-	-	(12,032)
Operating expense	(21,179)	(16,550)	(6,390)	(2,043)	-	(12,051)	-	(58,213)
General and administration	(6,560)	(5,559)	(326)	(830)	(252)	(1,661)	(2,574)	(17,762)
PRRT	-	-	-	-	-	(12,699)	-	(12,699)
Corporate income taxes	-	(24,761)	(1,301)	(506)	-	(5,689)	(378)	(32,635)
Interest expense	-	-	-	-	-	-	(12,334)	(12,334)
Realized gain on derivative instruments	-	-	-	-	-	-	2,419	2,419
Realized foreign exchange gain	-	-	-	-	-	-	587	587
Realized other income	-	-	-	-	-	-	74	74
Fund flows from operations	113,258	64,566	21,171	4,382	(1,823)	26,728	(12,206)	216,076

	Three Months Ended June 30, 2013							
($M)	Canada	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Drilling and development	14,059	23,223	4,157	-	24,878	8,282	406	75,005
Exploration and evaluation	2,494	-	-	-	-	-	619	3,113
Oil and gas sales to external customers	100,950	100,418	38,316	-	-	72,282	-	311,966
Royalties	(9,707)	(6,093)	-	-	-	-	-	(15,800)
Revenue from external customers	91,243	94,325	38,316	-	-	72,282	-	296,166
Transportation expense	(2,611)	(2,416)	-	-	(1,626)	-	-	(6,653)
Operating expense	(15,975)	(16,935)	(5,260)	-	-	(9,912)	-	(48,082)
General and administration	(3,948)	(3,927)	(426)	-	(410)	(1,378)	(1,224)	(11,313)
PRRT	-	-	-	-	-	(12,590)	-	(12,590)
Corporate income taxes	-	(16,124)	(9,621)	-	-	(10,646)	(328)	(36,719)
Interest expense	-	-	-	-	-	-	(9,336)	(9,336)
Realized gain on derivative instruments	-	-	-	-	-	-	1,770	1,770
Realized foreign exchange gain	-	-	-	-	-	-	1,272	1,272
Realized other income	-	-	-	-	-	-	77	77
Fund flows from operations	68,709	54,923	23,009	-	(2,036)	37,756	(7,769)	174,592

	Six Months Ended June 30, 2014							
($M)	Canada	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Total assets	1,854,501	916,712	235,723	174,735	799,394	277,624	125,726	4,384,415
Drilling and development	127,744	64,681	33,425	826	43,457	16,682	-	286,815
Exploration and evaluation	24,163	10,900	8,206	-	-	-	1,364	44,633
Oil and gas sales to external customers	286,441	242,177	71,435	20,012	-	148,802	-	768,867
Royalties	(30,903)	(15,147)	(2,901)	(4,086)	-	-	-	(53,037)
Revenue from external customers	255,538	227,030	68,534	15,926	-	148,802	-	715,830
Transportation expense	(7,122)	(10,138)	-	(1,474)	(3,159)	-	-	(21,893)
Operating expense	(37,789)	(32,970)	(12,432)	(3,597)	-	(29,411)	-	(116,199)
General and administration	(9,428)	(10,753)	(924)	(1,398)	(534)	(2,867)	(6,325)	(32,229)
PRRT	-	-	-	-	-	(32,938)	-	(32,938)
Corporate income taxes	-	(50,025)	(5,089)	(1,043)	-	(14,530)	(551)	(71,238)
Interest expense	-	-	-	-	-	-	(23,794)	(23,794)
Realized gain on derivative instruments	-	-	-	-	-	-	5,059	5,059
Realized foreign exchange loss	-	-	-	-	-	-	(1,454)	(1,454)
Realized other income	-	-	-	-	-	-	295	295
Fund flows from operations	201,199	123,144	50,089	8,414	(3,693)	69,056	(26,770)	421,439

10. SEGMENTED INFORMATION (Continued)

	Six Months Ended June 30, 2013							
($M)	Canada	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Total assets	1,105,026	873,242	142,317	-	646,366	311,415	220,641	3,299,007
Drilling and development	96,800	44,815	6,156	-	41,398	63,631	1,725	254,525
Exploration and evaluation	11,882	-	-	-	-	-	807	12,689
Oil and gas sales to external customers	184,638	221,984	72,737	-	-	142,183	-	621,542
Royalties	(18,696)	(12,894)	-	-	-	-	-	(31,590)
Revenue from external customers	165,942	209,090	72,737	-	-	142,183	-	589,952
Transportation expense	(4,880)	(5,170)	-	-	(3,244)	-	-	(13,294)
Operating expense	(29,816)	(36,874)	(9,229)	-	-	(24,738)	-	(100,657)
General and administration	(7,017)	(9,613)	(838)	-	(647)	(2,896)	(2,912)	(23,923)
PRRT	-	-	-	-	-	(23,743)	-	(23,743)
Corporate income taxes	-	(34,783)	(19,055)	-	-	(17,859)	(579)	(72,276)
Interest expense	-	-	-	-	-	-	(18,025)	(18,025)
Realized loss on derivative instruments	-	-	-	-	-	-	(1,017)	(1,017)
Realized foreign exchange gain	-	-	-	-	-	-	655	655
Realized other income	-	-	-	-	-	-	549	549
Fund flows from operations	124,229	122,650	43,615	-	(3,891)	72,947	(21,329)	338,221

Reconciliation of fund flows from operations to net earnings

	Three Months Ended		Six Months Ended	
($M)	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Fund flows from operations	**216,076**	174,592	**421,439**	338,221
Equity based compensation	**(18,217)**	(10,724)	**(34,689)**	(26,860)
Unrealized (loss) gain on derivative instruments	**(1,521)**	8,651	**2,414**	7,538
Unrealized foreign exchange (loss) gain	**(23,746)**	28,025	**(1,746)**	25,506
Unrealized other income (expense)	**104**	(348)	**(150)**	(753)
Accretion	**(5,950)**	(6,000)	**(11,662)**	(11,824)
Depletion and depreciation	**(104,902)**	(78,418)	**(204,354)**	(159,866)
Deferred taxes	**(7,851)**	(9,580)	**(14,471)**	(13,627)
Net earnings	**53,993**	106,198	**156,781**	158,335

11. CAPITAL DISCLOSURES

	Three Months Ended		Six Months Ended	
($M except as indicated)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Long-term debt	**1,198,866**	780,470	**1,198,866**	780,470
Current liabilities	**377,710**	325,912	**377,710**	325,912
Current assets	**(407,578)**	(432,014)	**(407,578)**	(432,014)
Net debt [1]	**1,168,998**	674,368	**1,168,998**	674,368
Cash flows from operating activities	**149,592**	179,074	**327,830**	369,786
Changes in non-cash operating working capital	**64,103**	(6,852)	**88,577**	(35,323)
Asset retirement obligations settled	**2,381**	2,370	**5,032**	3,758
Fund flows from operations	**216,076**	174,592	**421,439**	338,221
Annualized fund flows from operations [2]	**864,304**	698,368	**842,878**	676,442
Ratio of net debt to annualized fund flows from operations ([1] ÷ [2])	**1.4**	1.0	**1.4**	1.0

Long-term debt as at June 30, 2014 increased to $1.2 billion from $990.0 million as at December 31, 2013 as a result of draws on the revolving credit facility during the current year to fund the acquisitions in Germany and Saskatchewan coupled with the assumption of $47.5 million of long-term debt pursuant to the latter acquisition. This increase in long-term debt resulted in an increase to net debt from $749.7 million to $1.2 billion.

As year-to-date fund flows includes only 2 months of contribution from the acquisition in Saskatchewan, the ratio of net debt to annualized fund flows increased to 1.4.

12. FINANCIAL INSTRUMENTS

Classification of Financial Instruments

The following table summarizes information relating to Vermilion's financial instruments as at June 30, 2014 and December 31, 2013:

Class of financial instrument	Consolidated balance sheet caption	Accounting designation	Related caption on Statement of Net Earnings	As at Jun 30, 2014 Carrying value ($M)	As at Jun 30, 2014 Fair value ($M)	As at Dec 31, 2013 Carrying value ($M)	As at Dec 31, 2013 Fair value ($M)	Fair value measurement hierarchy
Cash	Cash and cash equivalents	HFT	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	**165,497**	**165,497**	389,559	389,559	Level 1
Receivables	Accounts receivable	LAR	Gains and losses on foreign exchange are included in foreign exchange loss (gain) and impairments are recognized as general and administration expense	**199,251**	**199,251**	167,618	167,618	Not applicable
Derivative assets	Derivative instruments	HFT	Gain on derivative instruments	**7,624**	**7,624**	2,285	2,285	Level 2
Derivative liabilities	Derivative instruments	HFT	Gain on derivative instruments	**(7,787)**	**(7,787)**	(3,572)	(3,572)	Level 2
Payables	Accounts payable and accrued liabilities Dividends payable	OTH	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	**(287,172)**	**(287,172)**	(288,257)	(288,257)	Not applicable
Long-term debt	Long-term debt	OTH	Interest expense	**(1,198,866)**	**(1,207,610)**	(990,024)	(998,648)	Level 2

The accounting designations used in the above table refer to the following:

HFT – Classified as "Held for trading" in accordance with International Accounting Standard 39 "Financial Instruments: Recognition and Measurement". These financial assets and liabilities are carried at fair value on the consolidated balance sheets with associated gains and losses reflected in net earnings.

LAR – "Loans and receivables" are initially recognized at fair value and are subsequently measured at amortized cost. Impairments and foreign exchange gains and losses are recognized in net earnings.

OTH – "Other financial liabilities" are initially recognized at fair value net of transaction costs directly attributable to the issuance of the instrument and subsequently are measured at amortized cost. Interest is recognized in net earnings using the effective interest method. Foreign exchange gains and losses are recognized in net earnings.

Level 1 – Fair value measurement is determined by reference to unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Fair value measurement is determined based on inputs other than unadjusted quoted prices that are observable, either directly or indirectly.

Level 3 – Fair value measurement is based on inputs for the asset or liability that are not based on observable market data.

Determination of Fair Values

The level in the fair value hierarchy into which the fair value measurements are categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. Transfers between levels on the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Fair values for derivative assets and derivative liabilities are determined using pricing models incorporating future prices that are based on assumptions which are supported by prices from observable market transactions and are adjusted for credit risk.

The carrying value of receivables approximate their fair value due to their short maturities.

The carrying value of long-term debt outstanding on the revolving credit facility approximates its fair value due to the use of short-term borrowing instruments at market rates of interest.

The fair value of the senior unsecured notes changes in response to changes in the market rates of interest payable on similar instruments and was determined with reference to prevailing market rates for such instruments.

12. FINANCIAL INSTRUMENTS (Continued)

Nature and Extent of Risks Arising from 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, 2014 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	Before tax effect on comprehensive income - increase (decrease) June 30, 2014
Currency risk - Euro to Canadian	**Increase** in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates	(3,580)
	Decrease in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates	3,580
Currency risk - US $ to Canadian	**Increase** in strength of the Canadian dollar against the US $ by 5% over the relevant closing rates	(2,866)
	Decrease in strength of the Canadian dollar against the US $ by 5% over the relevant closing rates	2,866
Commodity price risk	**Increase** in relevant oil reference price within option pricing models used to determine the fair value of financial derivatives by US $5.00/bbl at the relevant valuation dates	(7,593)
	Decrease in relevant oil reference price within option pricing models used to determine the fair value of financial derivatives by US $5.00/bbl at the relevant valuation dates	6,893
Interest rate risk	**Increase** in average Canadian prime interest rate by 100 basis points during the relevant periods	(4,063)
	Decrease in average Canadian prime interest rate by 100 basis points during the relevant periods	4,063

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, 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

Loren M. Leiker [5]
Houston, Texas

William F. Madison [2, 4, 5]
Sugar Land, Texas

Timothy R. Marchant [3, 4, 5]
Calgary, Alberta

Sarah E. Raiss [3]
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

$M	thousand dollars
$MM	million dollars
AECO	the daily average benchmark price for natural gas at the AECO 'C' hub in southeast Alberta
bbl(s)	barrel(s)
bbls/d	barrels per day
bcf	billion cubic feet
boe	barrel of oil equivalent, including: crude oil, natural gas liquids and natural gas (converted on the basis of one boe for six mcf of natural gas)
boe/d	barrel of oil equivalent per day
GJ	gigajoules
mbbls	thousand barrels
mboe	thousand barrel of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmboe	million barrel of oil equivalent
mmcf	million cubic feet
mmcf/d	million cubic feet per day
MWh	megawatt hour
NGLs	natural gas liquids
PRRT	Petroleum Resource Rent Tax, a profit based tax levied on petroleum projects in Australia
TTF	the day-ahead price for natural gas in the Netherlands, quoted in MWh of natural gas, at the Title Transfer Facility Virtual Trading Point operated by Dutch TSO Gas Transport Services
WTI	West Texas Intermediate, the reference price paid for crude oil of standard grade in U.S. dollars at Cushing, Oklahoma

OFFICERS AND KEY PERSONNEL

CANADA

Lorenzo Donadeo, P.Eng.
Chief Executive Officer

Anthony Marino, P.Eng.
President & Chief Operating Officer

John D. Donovan, FCA
Executive Vice President Business Development

Curtis W. Hicks, CA
Executive Vice President & Chief Financial Officer

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

Terry Hergott, CMA
Vice President Marketing

Michael Kaluza, P.Eng.
Vice President Canada Business Unit

Daniel Goulet, P.Eng.
Director Corporate HSE

Dion Hatcher, P.Eng.
Director Alberta Foothills – Canada Business Unit

Bryce Kremnica, P.Eng.
Director Field Operations – Canada Business Unit

Dean N. Morrison, CFA
Director Investor Relations

Mike Prinz
Director Information Technology
& Information Systems

Jenson Tan, P.Eng.
Director New Ventures

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

EUROPE

Gerard Schut, P.Eng.
Vice President European Operations

Darcy Kerwin, P.Eng.
Managing Director
France Business Unit

Neil Wallace
Managing Director
Netherlands Business Unit

Albrecht Moehring
Managing Director
Germany Business Unit

AUSTRALIA

Bruce D. Lake, P.Eng.
Managing Director
Australia Business Unit

AUDITORS

Deloitte LLP
Calgary, Alberta

BANKERS

The Toronto-Dominion Bank

Royal Bank of Canada

The Bank of Nova Scotia

Canadian Imperial Bank of Commerce

Bank of Montreal

National Bank of Canada

Wells Fargo Bank N.A., Canadian Branch

Alberta Treasury Branches

La Caisse Centrale Desjardins du Québec

HSBC Bank Canada

JPMorgan Chase Bank, N.A., Toronto Branch

Citibank N.A., Canadian Branch - Citibank Canada

Union Bank, Canada Branch

Bank of America N.A., Canada Branch

Canadian Western Bank

Goldman Sachs Lending Partners LLC

EVALUATION ENGINEERS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL

Norton Rose Fulbright Canada LLP
Calgary, Alberta

TRANSFER AGENT

Computershare Trust Company of Canada

STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange ("VET")
The New York Stock Exchange ("VET")

INVESTOR RELATIONS

Dean Morrison, Director Investor Relations

VERMILION
ENERGY

EXCELLENCE

We aim for exceptional results in everything we do.

TRUST

At Vermilion, we operate with honesty and fairness, and can be counted on to do what we say we will.

RESPECT

We embrace diversity, value our people and believe every employee and business associate worldwide deserves to be treated with the utmost dignity and respect.

RESPONSIBILITY

Vermilion continually shows its commitment to the care of our people and environment, and enrichment of the communities in which we live and work.

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