UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 40-F

£ Registration statement pursuant to Section 12 of the Securities Exchange Act of 1934; or
R Annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 2011
Commission file number: No. 0-50832
Vermilion Energy Inc.

(Exact name of registrant as specified in its charter)
Alberta

(Province or other jurisdiction of incorporation or organization)
1311

(Primary standard industrial classification code number)
N/A

(I.R.S. employer identification number)
3500, 520 – 3rd Avenue S.W.
Calgary, Alberta T2P 0R3 Canada
(403) 269-4884

(Address and telephone number of registrant's principal executive office)
National Corporate Research, Ltd.
225 West 34th Street, Suite 910
New York, New York 10122 U.S.A.
(212) 947-7200

(Name, address and telephone number of agent for service in the United States)

Securities registered pursuant to Section 12(b) of the Act:
Title of each class: **N/A** Name of each exchange on which registered: **N/A**

Securities registered or to be registered pursuant to Section 12(g) of the Act: **Common Shares**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **N/A**

For annual reports, indicate by check mark the information filed with this form:

R **Annual Information Form** R **Audited Annual Financial Statements**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **96,430,135 shares**

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.

R **Yes** £ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

£ **Yes** £ No

Principal Documents

The following documents have been filed as part of this Annual Report on Form 40-F:

Exhibit 99.1 - Annual Information Form for the fiscal year ended December 31, 2011
Exhibit 99.2 - Management's Discussion and Analysis for the fiscal year ended December 31, 2011; and
Exhibit 99.3 - Audited Annual Financial Statements for the fiscal year ended December 31, 2011

DISCLOSURE CONTROLS AND PROCEDURES

A. Evaluation of Disclosure Controls and Procedures

Vermilion Energy Inc. (the "Registrant") maintains disclosure controls and procedures and internal control over financial reporting designed to ensure that information required to be disclosed in the Registrant's filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time period specified in the rules and forms of the Securities and Exchange Commission (the "SEC"). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Registrant's Chief Executive Officer and Chief Financial Officer, after having evaluated the effectiveness of the Registrant's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report have concluded that, as of such date, the Registrant's disclosure controls and procedures are effective to ensure that information relating to the Registrant and its consolidated subsidiaries would be made known to them by others within those entities. However, as recommended by the SEC in its adopting release, the Registrant will continue to periodically evaluate its disclosure controls and procedures and will make modifications from time to time as deemed necessary to ensure that information is recorded, processed, summarized and reported within the time period's specified in the SEC's rules and forms.

B. Management's Annual Report on Internal Controls .

See page 3 of the 2011 Audited Financial Statements included as Exhibit 99.3 to this report.

C. Auditor Attestation

See page 5 of the 2011 Audited Financial Statements included as Exhibit 99.3 to this report.

D. Changes in Internal Control Over Financial Reporting

There was no change in the Registrant's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

NOTICES REQUIRED BY RULE 104 OF REGULATION BTR

None

AUDIT COMMITTEE FINANCIAL EXPERT

The Registrant's Board of Directors has determined that it has at least one audit committee financial expert (as such term is defined in the rules and regulations of the SEC) serving on its Audit Committee. W. Kenneth Davidson has been determined to be such audit committee financial expert and is independent (as such term is defined by the New York Stock Exchange's corporate governance standards).

The SEC has indicated that the designation of W. Kenneth Davidson as an audit committee financial expert does not make him an "expert" for any purpose, impose on him any duties, obligations or liability that are greater than the duties, obligations or liability imposed on him as a member of the Audit Committee and the Board of Directors in absence of such designation, or affect the duties, obligations or liability of any other member of the Audit Committee or Board of Directors.

CODE OF ETHICS

The Registrant has adopted a written “code of ethics” (as that term is defined in Form 40-F) that applies to its directors, officers and employees. A copy of such code of ethics is available upon request or on the Company’s website at www.vermilionenergy.com

PRINCIPAL ACCOUNTANT FEES AND SERVICES

See page 36 of the Annual Information Form for the year ended December 31, 2011 included as Exhibit 99.1 to this report.

The audit committee pre-approves all audit and audit related fees. The auditor presents the estimate for the annual audit related services to the Committee for approval prior to undertaking the annual audit of the financial statements.

All non-audit fees were pre-approved by the Registrant’s audit committee and none were approved on the basis of the de minimis exemption set forth in Rule 2-01(c)(7)(i)(C) of Regulation S-X.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Payments due by period (Cdn $000’s)

($M)	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**	**Total**
Long-term debt (excluding interest)	-	152,086	221,350	-	373,436
Amount due pursuant to acquisition	137,295	-	-	-	137,295
Operating lease obligations	8,575	17,297	14,921	41,681	82,474
Ship or pay agreement related to the Corrib project	7,588	11,954	9,273	43,292	72,107
Purchase obligations	19,309	2,207	2,111	670	24,297
Drilling and service agreements	10,913	-	-	-	10,913
Total contractual obligations	183,680	183,544	247,655	85,643	700,522

IDENTIFICATION OF THE AUDIT COMMITTEE

See page 35 of the Annual Information Form for the year ended December 31, 2011 included as Exhibit 99.1 to this report.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff and to furnish promptly, when requested to do so by the Commission staff, information relating to: the Securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises or transactions in said securities.

B. Consent to Service of Process

The Registrant has previously filed with the SEC a Form F-X in connection with the class of securities in relation to which the obligation to file this report arises.

Any change to the name or address of the Registrant's agent for service shall be communicated promptly to the SEC by amendment to Form F-X referencing the file number of the Registrant.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

VERMILION ENERGY INC (the Registrant)

Date: March 12, 2012

By: *("Curtis Hicks")*

Curtis W. Hicks
Executive Vice President and Chief Financial Officer



EXHIBIT 99.1

VERMILION ENERGY INC.

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2011

Dated March 12, 2012



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GLOSSARY OF TERMS

The following are defined terms used in this annual information form:

"2003 Arrangement" means the plan of arrangement under the ABCA involving the Trust, Vermilion Resources Ltd., Clear Energy Inc. and Vermilion Acquisition Ltd., which was completed on January 22, 2003;

"ABCA" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"AGCA" means Alberta Gas Cost Allowance;

"affiliate" when used to indicate a relationship with a person or company, has the same meaning as set forth in the *Securities Act* (Alberta);

"board of directors" or **"board"** means the board of directors of Vermilion;

"CGU's" means cash generating units and based on managements' judgement, represents the lowest level at which there is identifiable cash inflows that are largely independent of the cash inflows of other groups of assets or properties;

"common shares" means a common share in the capital of the Company;

"control" means, with respect to control of a body corporate by a person, the holding (other than by way of security) by or for the benefit of that person of securities of that body corporate to which are attached more than 50% of the votes that may be cast to elect directors of the body corporate (whether or not securities of any other class or classes shall or might be entitled to vote upon the happening of any event or contingency) provided that such votes, if exercised, are sufficient to elect a majority of the board of directors of the body corporate;

"Conversion Arrangement" means the plan of arrangement effected on September 1, 2010 under section 193 of the ABCA pursuant to which the Trust converted from an income trust to a corporate structure;

"Depletion units" means groups of assets or properties that are within a specific production area and have similar economic lives. Depletion units represent the lowest level of disaggregation for which Vermilion accumulates costs for the purposes of calculating and recording depletion;

"dividend" means a dividend paid by Vermilion in respect of the common shares, expressed as an amount per common share;

"Dividend Payment Date" means any date that Dividends are distributed to Shareholders, generally being the 15th day of the calendar month following the determination of a Dividend Record Date;

"Dividend Record Date" means the last day of each calendar month or such other date as may be determined from time to time by the Company;

"DRIP Plan" means the Dividend Reinvestment Plan adopted by the Company;

"GAAP" means Canadian Generally Accepted Accounting Principles, or alternatively IFRS;

"GLJ" means GLJ Petroleum Consultants Ltd., independent petroleum engineering consultants of Calgary, Alberta;

"GLJ Report" means the independent engineering evaluation of certain oil, NGL and natural gas interests of the Company prepared by GLJ dated February 3, 2012 and effective December 31, 2011;

"IFRS" means International Financial Reporting Standards;

"Income Tax Act" or **"Tax Act"** means the *Income Tax Act* (Canada), R.S.C. 1985, c. 1. (5th Supp.), as amended, including the regulations promulgated thereunder;

"Meeting" means the annual meeting of Shareholders of the Company to be held on May 4, 2012 (or, if adjourned, such other date on which the meeting is held);

"PNG" means Petroleum and Natural Gas properties and equipment;

"PRRT" means Petroleum Resource Rent Tax, a profit based tax levied on petroleum projects in Australia;

"Rights Plan" means the Shareholder rights plan of the Company;

"Senior Unsecured Notes" means the senior unsecured notes of the Company issued February 10, 2011;

"Shareholders" means holders from time to time of the Company's common shares;

"Shareholder Rights Plan Agreement" means the Shareholder Rights Plan Agreement dated September 1, 2010 between the Company and Computershare Trust Company of Canada establishing the Rights Plan;

"Special Resolution" means a resolution proposed to be passed as a special resolution at a meeting of Shareholders and passed by the affirmative votes of the holders of not less than 66 2/3% of the common shares represented at the meeting and voted on a poll upon such resolution;

"Subsidiary" means, in relation to any person, any body corporate, partnership, joint venture, association or other entity of which more than 50% of the total voting power of common shares or units of ownership or beneficial interest entitled to vote in the election of directors (or members of a comparable governing body) is owned or controlled, directly or indirectly, by such person;

"TSX" means the Toronto Stock Exchange;

"Trust" means Vermilion Energy Trust, an unincorporated open-ended investment trust governed by the laws of the Province of Alberta that was terminated pursuant to the Conversion Arrangement;

"Trust Unit" means units in the capital of the Trust;

"Unitholders" means former unitholders of the Trust;

"Vermilion" or the **"Company"** means Vermilion Energy Inc. and where context allows, its consolidated business enterprise, except that a reference to "Vermilion" prior to the date of the Conversion Arrangement means the consolidated business enterprise of the Trust, unless otherwise indicated; and

"VRL" means Vermilion Resources Ltd.

Conventions

Unless otherwise indicated, references herein to "$" or "dollars" are to Canadian dollars. All financial information herein has been presented in Canadian dollars in accordance with GAAP.

Abbreviations

Oil and Natural Gas Liquids	
bbl	Barrel
Mbbl	thousand barrels
bbl/d	barrels per day
NGLs	natural gas liquids
Natural Gas	
Mcf	thousand cubic feet
MMcf	million cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
MMBtu	million British Thermal Units
Other	
API	American Petroleum Institute
°API	An indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28 °API or higher is generally referred to as light crude oil.
boe	barrel of oil equivalent
M$	thousand dollars
MM$	million dollars
Mboe	1,000 barrels of oil equivalent
MMboe	million barrels of oil equivalent
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade.

Conversion

The following table sets forth certain standard conversions from Standard Imperial Units to the International System of Units (or metric units).

To Convert From	To	Multiply By
Mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
bbls	Cubic metres	0.159
Cubic metres	bbls oil	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements included or incorporated by reference in this annual information form 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 annual information form may include, but are not limited to:

- capital expenditures;
- business strategy and objectives;
- reserve quantities and the discounted present value of future net cash flows from such reserves;
- revenue;
- future production levels and rates of average annual production growth;
- exploration plans;
- development plans;
- acquisition and disposition plans and the timing thereof;
- operating and other costs;
- royalty rates;
- the timing of regulatory proceedings and approvals;
- the timing of first commercial gas from the Corrib field; and
- estimate of Vermilion's share of the expected gas rates from the Corrib field.

Such forward-looking statements or information are based on a number of assumptions all or any of which may prove to be incorrect. In addition to any other assumptions identified in this document, assumptions have been made regarding, among other things:

- the ability of the Company to obtain equipment, services and supplies in a timely manner to carry out its activities in Canada and internationally;
- the ability of the Company 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 the Company 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 the Company 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 the Company 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 the Company 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 gas deposits;
- risks inherent in the Company'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;
- the Company's ability to enter into or renew leases;
- fluctuations in oil and 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 the Company 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 the Company; and
- other risks and uncertainties described elsewhere in this annual information form or in the Company's other filings with Canadian securities authorities.

The forward-looking statements or information contained in this annual information form are made as of the date hereof and the Company 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 equivalent of oil. 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.

PRESENTATION OF OIL AND GAS RESERVES AND PRODUCTION INFORMATION

All oil and natural gas reserve information contained in this annual information form has been prepared and presented in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101"). The actual oil and natural gas reserves and future production will be greater than or less than the estimates provided in this annual information form. The estimated future net revenue from the production of the disclosed oil and natural gas reserves does not represent the fair market value of these reserves. The Company has adopted the standard of 6 Mcf:1 bbl when converting natural gas to barrels of oil equivalent. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

NON-GAAP MEASURES

This annual information form includes non-GAAP measures as further described herein. Management of the Company believes these non-GAAP measures are a useful tool in analyzing operating performance. These measures do not have standardized meanings prescribed by GAAP and, therefore, may not be comparable with the calculations of similar measures for other entities.

“Cash dividends per share” represents actual cash dividends paid per share by the Company during the relevant periods.

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

“Net dividends” is calculated as dividends declared for a given period less proceeds received by Vermilion pursuant to the dividend reinvestment plan. Dividends both before and after the dividend reinvestment plan are reviewed by management and are also assessed as a percentage of fund flows from operations to analyze how much of the cash that is generated by Vermilion is being used to fund dividends.

VERMILION ENERGY INC.

General

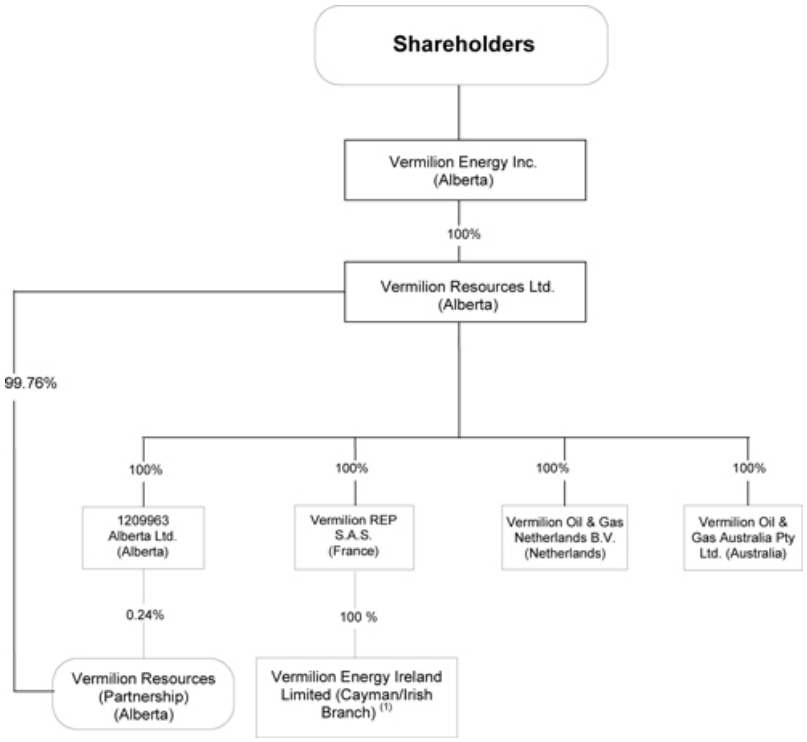
Vermilion Energy Inc. is the successor to the Trust, following the completion of the conversion of the Trust from an income trust to a corporate structure by way of a court approved plan of arrangement under the ABCA on September 1, 2010. Pursuant to the Conversion Arrangement, Unitholders exchanged their Trust Units for common shares of the Company on a one-for-one basis and holders of exchangeable shares of VRL received 1.89344 common shares for each exchangeable share held.

References to "Vermilion" prior to the date of the Conversion Arrangement are generally references to the consolidated business enterprise of the Trust prior to the date of the Conversion Arrangement, whose business the Company is a successor to as a result of the Conversion Arrangement, as accounted for by "continuity-of-interest" accounting.

Vermilion Energy Inc. was incorporated on July 21, 2010 pursuant to the provisions of the ABCA for the purpose of facilitating the Conversion Arrangement. The registered and head office of Vermilion Energy Inc. is located at Suite 3500, 520 – 3rd Avenue S.W., Calgary, Alberta, T2P 0R3.

Organizational Structure of the Company

The following diagram describes the intercorporate relationships among the Company and each of its material subsidiaries as at December 31, 2011, where each principal subsidiary was incorporated or formed and the percentage of votes attaching to all voting securities of each subsidiary beneficially owned directly or indirectly by Vermilion. Reference should be made to the appropriate sections of this annual information form for a complete description of the structure of the Company.



Notes:
(1) Vermilion Energy Ireland Limited is the Irish Branch of a Cayman Islands incorporated company.

Summary Description of the Business

Vermilion Energy Inc.

The Company is actively engaged in the business of oil and natural gas exploitation, development, acquisition and production in Australia, Canada, France, Ireland and the Netherlands. The Company's business plan is to expands its portfolio of organic growth opportunities and revitalize its strategic plan that targets average annual production growth of 10% while maintaining a stable dividend. Vermilion continues to develop New Growth Initiatives which target the identification and capture of meaningful unconventional resource related exploration exposure in Canada, Europe and Australia. Where possible, the Company will seek to expand its reserve base through the selective addition of high-quality, long-life reserves with low risk development opportunities.

Shareholders receive monthly dividends of the cash flow generated by Vermilion as declared payable by the board of directors of the Company. The Company currently employs a strategy which: (i) provides Shareholders with a competitive annual cash-on-cash yield through monthly cash dividends, (ii) ensures that Vermilion's existing assets are maintained at a level that provides sustainable ongoing cash flow, and (iii) continues to expand the business of the Company through the development of growth opportunities that are intended to provide long-term stable cash flows and be accretive to the existing Shareholders. The Company intends to finance acquisitions through bank financing and, when necessary, the issuance of additional common shares from treasury, while maintaining prudent leverage.

Vermilion Resources Ltd.

Vermilion Energy Inc. is the sole holder of VRL common shares.

The head office of VRL is located at Suite 3500, 520 – 3 rd Avenue S.W., Calgary, Alberta, T2P 0R3 and its registered office is located at Suite 3700, 400 – 3rd Avenue S.W., Calgary, Alberta, T2P 4H2.

History of Vermilion

The following describes the development of Vermilion's business over the last three completed financial years.

On July 30, 2009, Vermilion completed the acquisition of an 18.5% non-operated interest in the Corrib field located approximately 83 kilometres off the northwest coast of Ireland for an aggregate purchase price comprised of US$100 million paid on closing and an obligation for an additional future payment, the amount of which will vary from an estimated US$300 million to US$135 million, depending on the date when first commercial gas from the Corrib field is achieved. Pursuant to the acquisition agreement governing the Corrib acquisition, Vermilion assumed its share of future capital expenditure obligations in order to reach first commercial gas. On September 29, 2009, Vermilion filed a business acquisition report in connection with the Corrib acquisition, which may be found on SEDAR at www.sedar.com.

On October 30, 2009, Vermilion closed an equity financing of 7,282,000 Trust Units at a price $30.90 per Trust Unit for gross proceeds of $225 million. Subsequently, on December 1, 2009, Vermilion announced that the underwriters had exercised the over-allotment option in connection with the offering and Vermilion issued an additional 809,000 Trust Units at a price of $30.90 per Trust Unit for gross proceeds of approximately $25 million. As a result of exercise of the over-allotment option, the aggregate gross proceeds to Vermilion of the equity offering were approximately $250 million.

On December 21, 2009, Verenex Energy Inc., a company in which Vermilion held 18,760,540 common shares representing a 41.9% equity ownership position, was sold to a subsidiary of the Libyan Investment Authority for cash consideration of $7.09 per share plus an additional amount per common share of $0.1976 for aggregate consideration of $7.2876 per share representing gross proceeds to Vermilion of approximately $136.7 million. The proceeds were used to pay down debt.

On September 1, 2010, Vermilion converted from an income trust to a dividend paying corporation. Approval was granted from the Trust's Unitholders to the Conversion Arrangement at a special meeting of Unitholders of the Trust held on August 31, 2010.

On February 10, 2011, Vermilion issued $225.0 million of senior unsecured notes at par. The notes bear interest at a rate of 6.5% per annum and will mature on February 10, 2016. As direct senior unsecured obligations of Vermilion, the notes rank pari passu with all other present and future unsecured and unsubordinated indebtedness of the Company. Vermilion may, at its option, prior to February 10, 2014, redeem up to 35% of the notes with net proceeds of equity offerings by the Company at a redemption price equal to 106.5% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date. Subsequently, Vermilion may, on or after February 10, 2014, redeem all or part of the notes at fixed redemption prices, plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date.

On November 28, 2011, Vermilion completed an equity financing of 5,370,000 common shares at a price of $49.00 per common share for gross proceeds of approximately $263 million including the partial exercise of the underwriters' over-allotment option. The net proceeds were used to reduce a certain amount of outstanding indebtedness under the Company's credit facility, partially fund the Company's development capital program and prospective acquisitions and for general purposes.

During the year Vermilion completed property acquisitions of various strategic properties that complement existing assets within Vermilion's portfolio. In 2011, the cost of these property acquisitions to Vermilion was approximately $50.9 million, of which $38.8 million was from Canada and $12.1 million was from the Netherlands. None of the property acquisitions constituted a "significant acquisition" within the meaning of applicable securities laws.

On January 24, 2012, Vermilion, through its wholly-owned subsidiaries, acquired certain working interests in six producing fields located in the Paris and Aquitaine basins in France. Taking into consideration an effective date of January 1, 2011 and customary closing adjustments, Vermilion paid approximately $107 million cash at closing. Vermilion financed this acquisition through proceeds received from the November 2011 equity issuance. The acquisition did not constitute a "significant acquisition" within the meaning of applicable securities laws.

As at January 31, 2012, Vermilion had 350 full time employees of which 170 employees were located in its head office, 32 employees in its Canadian field offices, 101 employees in France, 16 employees in the Netherlands and 31 employees in Australia.

NARRATIVE DESCRIPTION OF THE BUSINESS

Stated Business Objectives

The Company is actively engaged in the business of oil and natural gas exploitation, development, acquisition and production in Australia, Canada, France, Ireland and the Netherlands. The Company's business plan is to expands its portfolio of organic growth opportunities and revitalize its strategic plan that targets average annual production growth of 10% while maintaining a stable dividend. Vermilion continues to develop New Growth Initiatives which target the identification and capture of meaningful unconventional resource related exploration exposure in Canada, Europe and Australia. Where possible, the Company will seek to expand its reserve base through the selective addition of high-quality, long-life reserves with low risk development opportunities.

In reviewing potential participations or acquisitions, Vermilion will consider a number of factors, including: (a) the present value of the future revenue from such properties from the proved producing, total proved and proved plus probable reserves; (b) the amount of potential for additional reservoir development; (c) whether sufficient infrastructure exists in the prospect to provide for increased activity; (d) the cost of any potential development; (e) investments in properties that exhibit medium to long life reserves and stable production base; and (f) the ability of Vermilion to enhance the value of acquired properties through additional exploitation efforts and additional development drilling. The board of directors of Vermilion may, in its discretion, approve asset or corporate acquisitions or investments that do not conform to these guidelines based upon the board's consideration of the qualitative aspects of the subject properties including risk profile, technical upside, reserve life, asset quality and the Company's business prospects.

Description of Properties

The following is a description of the oil and natural gas properties, plants, facilities and installations in which Vermilion has an interest and that are material to Vermilion's operations and exploration activities. The production numbers stated refer to Vermilion's working interest share before deduction of Crown, freehold and other royalties. Reserve amounts are stated, before deduction of royalties, as at December 31, 2011, based on forecasted costs and price assumptions as evaluated in the GLJ Report.

Canada Assets

Vermilion's production in Canada is located primarily in three areas, all in Alberta: Drayton Valley, Slave Lake and Central Alberta. Vermilion's main gas producing areas are Drayton Valley and Central Alberta, while Slave Lake and the new Cardium light oil play in Drayton Valley are the main oil producing areas.

In Canada, Vermilion holds an average working interest of 68.5% in 395,616 (271,067 net) acres of developed land, 582 (396 net) producing natural gas wells and 319 (198 net) producing oil wells as at December 31, 2011. Vermilion operates five natural gas plants and has an ownership interest in five additional plants, resulting in combined gross processing capacity of over 89 MMcf/d. Vermilion has capacity of over 20,500 bbl/d of oil in five operated oil batteries, including a battery constructed to handle 15,000 bbl/d of Cardium production which was completed in 2011 on time and on budget. The new battery commenced operations August 1, 2011 and as of December, 2011, was processing approximately 6,170 bbl/d of oil which represents 71% of Vermilion's total Cardium production.

Vermilion sold its interests in the Mitsue field resulting in a decrease in the Canadian well count of 202 (8 net) producing oil wells.

Risks and uncertainties associated with weather conditions can shorten the winter drilling season and can impact the spring and summer drilling programs, potentially resulting in increased costs or reduced production.

For a discussion of the competitive conditions affecting Vermilion's business, refer to "Competition" in the Risk Factors section of this AIF.

For the year ended December 31, 2011, production in Canada averaged approximately 43 MMcf/d of natural gas and 5,998 bbl/d of oil and NGLs. Revenues from the sale of natural gas were $60.6 million in the year (2010 - $72.7 million) and $199.2 million from oil and NGLs (2010 - $112.5 million).

The GLJ Report assigned 38,732 Mboe of total proved reserves and 64,187 Mboe of proved plus probable reserves to Vermilion's properties located in Canada as at December 31, 2011.

France Assets

Vermilion's main producing areas in France are located in the Aquitaine Basin which is southwest of Bordeaux, France and in the Paris Basin, located just east of Paris. Vermilion's assets in France are primarily oil producing properties. The two major fields in the Paris Basin area are Champotran and Chaunoy. The two major fields in the Aquitaine Basin are Parentis and Cazaux. Vermilion operates eight oil batteries with current producing capacities of 8,100 bbl/d, however, expansion above this, could be easily accommodated. Vermilion holds an 83.6% working interest in 193,017 acres of developed land in the Aquitaine and Paris Basins. Vermilion had 220 (193 net) producing oil wells in France as at December 31, 2011.

Risks and uncertainties associated with well approvals can impact the drilling programs, potentially resulting in delays or reduced production.

For a discussion of the competitive conditions affecting Vermilion's business, refer to "Competition" in the Risk Factors section of this AIF.

For the year ended December 31, 2011, production in France averaged approximately 8,110 bbl/d of oil and 1.0 MMcf/d of natural gas. Revenues from oil sales were $319.9 million in the year (2010 - $245.7 million) and $4.2 million from the sale of natural gas (2010 - $3.3 million).

The GLJ Report assigned 24,226 Mboe of total proved reserves and 36,030 Mboe of proved plus probable reserves to Vermilion's properties located in France.

On January 24, 2012, Vermilion, through its wholly-owned subsidiaries, acquired from Total E&P France, certain working interests in six producing fields located in the Paris and Aquitaine basins in France. The assets are expected to average approximately 2,200 boe per day of production in 2012. Vermilion acquired the remaining working interest in three existing fields; Itteville, Vert Le Grand and Vic Bihl. Three new fields were acquired; Vert Le Petit and La Croix Blanche at 100% working interest and Dommartin-Lettrée at 56% working interest.

Netherlands Assets

Vermilion's Netherlands assets consist of eight onshore concessions and one offshore concession located in the northern part of the country. Production consists solely of natural gas with a small amount of related condensate. The assets include three operated gas treatment centres that have a combined total capacity of 240 MMcf/d. Vermilion holds an approximate 63.4% working interest over the nine concessions in 49,272 (36,485 net) acres of developed land and 53 (40 net) producing gas wells as at December 31, 2011.

Risks and uncertainties associated with drilling and production permits can impact drilling programs and production timing, potentially resulting in increased costs or reduced production.

For a discussion of the competitive conditions affecting Vermilion's business, refer to "Competition" in the Risk Factors section of this AIF.

For the year ended December 31, 2011, Vermilion's production in the Netherlands averaged 58 bbl/d of NGLs and 33 MMcf/d of natural gas. Revenues from the sale of natural gas were $114.2 million in the year (2010 - $72.8 million) and $2.0 million from NGL sales (2010 - $1.0 million).

The GLJ Report assigned 5,512 Mboe of total proved reserves and 11,025 Mboe of proved plus probable reserves to Vermilion's properties located in the Netherlands.

Australia Assets

Vermilion's Australia assets consist of a 100% operated interest in an offshore oil field located on Western Australia's northwest shelf. The platform has a current capacity of 162,000 bbl/d of total fluid. Vermilion holds a 100% working interest in the Wandoo block, which is comprised of 59,553 acres and is considered a production license. All acreage therefore is classified as producing.

The northwest shelf of Australia is subject to seasonal disruptions caused by cyclones. During cyclone season (December to March) the Company may have to reduce production rates at its offshore facilities as a result of the inability to offload to tankers due to bad weather. Cyclones may also cause production shut-ins due to the evacuation of staff or damage to the equipment on the platform.

For a discussion of the competitive conditions affecting Vermilion's business, refer to "Competition" in the Risk Factors section of this AIF.

For the year ended December 31, 2011, Vermilion's production in the Australia averaged 8,168 bbl/d of oil. Revenues from oil sales were $331.4 million in the year (2010 - $219.7 million).

The GLJ Report assigned 12,697 Mboe of total proved reserves and 17,497 Mboe of proved plus probable reserves to Vermilion's properties located in Australia.

Ireland Assets

Vermilion holds an 18.5% non-operating interest in the offshore Corrib gas field located off the northwest coast of Ireland. Production from Corrib is expected to increase Vermilion's volumes by approximately 54 MMcf (9,000 boe/d) once the field reaches peak production. Vermilion acquired its 18.5% working interest in the project on July 30, 2009, which comprised of seven offshore wells, both offshore and onshore pipeline segments as well as a significant natural gas processing facility. At the time of the acquisition most of the key components of the project, with the exception of the onshore pipeline, were either complete or in the latter stages of development. In 2011, approvals and permissions were granted for the onshore gas pipeline and construction has commenced with tunnelling expected to begin in the fourth quarter of 2012. Vermilion expects to continue significant capital investment on this project over the next two years and currently expects to achieve initial gas production from this field in late 2014.

The GLJ Report assigned 15,332 Mboe of total proved reserves and 17,493 Mboe of proved plus probable reserves to Vermilion's property in Ireland.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

Reserves and Future Net Revenue

The following is a summary of the oil and natural gas reserves and the value of future net revenue of Vermilion as evaluated by GLJ in a report dated February 3, 2012. Pricing used in the forecast price evaluations is set forth in the notes to the tables.

Information contained in this section is effective December 31, 2011 unless otherwise stated.

All evaluations of future net production revenue set forth in the tables below are stated after overriding and lessor royalties, Crown royalties, freehold royalties, mineral taxes, direct lifting costs, normal allocated overhead and future capital investments, including abandonment and reclamation obligations. **It should not be assumed that the discounted future net production revenue estimated by the GLJ Report represents the fair market value of the reserves. Other assumptions relating to the costs, prices for future production and other matters are included in the GLJ Report. There is no assurance that the future price and cost assumptions used in the GLJ Report will prove accurate and variances could be material.**

Reserves for Australia, Canada, France, Ireland and the Netherlands are established using deterministic methodology. Total proved reserves are established at the 90 percent probability (P90) level. There is a 90 percent probability that the actual reserves recovered will be equal to or greater than the P90 reserves. Total proved plus probable reserves are established at the 50 percent probability (P50) level. There is a 50 percent probability that the actual reserves recovered will be equal to or greater than the P50 reserves.

The Report on Reserves Data by Independent Qualified Reserves Evaluator in Form 51-101F2 and the Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3 are contained in Schedules "A" and "B", respectively.

The following tables provide reserves data and a breakdown of future net revenue by component and production group using forecast prices and costs. For Canada, the tables following include AGCA.

The following tables may not total due to rounding.

Oil and Gas Reserves - Based on Forecast Prices and Costs [8]

	Light and Medium Oil		Heavy Oil		Natural Gas		Natural Gas Liquids			BOE
	Gross[1] (Mbbl)	Net[1] (Mbbl)	Gross[1] (Mbbl)	Net[1] (Mbbl)	Gross[1] (MMcf)	Net[1] (MMcf)	Gross[1] (Mbbl)	Net[1] (Mbbl)	Gross (Mboe)	Net (Mboe)
Proved Developed Producing[2][5]										
Australia	12,697	12,697	-	-	-	-	-	-	12,697	12,697
Canada	8,343	6,874	19	18	76,082	67,727	2,519	1,669	23,562	19,849
France	22,748	21,020	-	-	596	566	-	-	22,847	21,114
Ireland	-	-	-	-	-	-	-	-	-	-
Netherlands	-	-	-	-	22,023	22,023	30	30	3,701	3,701
Total Proved Developed Producing	43,789	40,590	19	18	98,701	90,317	2,549	1,700	62,808	57,361
Proved Developed Non-Producing[2][6]										
Australia	-	-	-	-	-	-	-	-	-	-
Canada	526	454	-	-	6,447	5,952	96	67	1,696	1,512
France	335	300	-	-	-	-	-	-	335	300
Ireland	-	-	-	-	-	-	-	-	-	-
Netherlands	-	-	-	-	10,745	10,745	21	21	1,811	1,811
Total Proved Developed Non-Producing	861	753	-	-	17,192	16,697	116	87	3,843	3,623
Proved Undeveloped[2][7]										
Australia	-	-	-	-	-	-	-	-	-	-
Canada	7,083	6,216	-	-	33,881	31,833	743	603	13,473	12,125
France	1,043	1,006	-	-	-	-	-	-	1,043	1,006
Ireland	-	-	-	-	91,991	91,991	-	-	15,332	15,332
Netherlands	-	-	-	-	-	-	-	-	-	-
Total Proved Undeveloped	8,127	7,221	-	-	125,873	123,824	743	603	29,849	28,462
Proved[2]										
Australia	12,697	12,697	-	-	-	-	-	-	12,697	12,697
Canada	15,953	13,543	19	18	116,411	105,512	3,358	2,339	38,732	33,485
France	24,127	22,325	-	-	596	566	-	-	24,226	22,419
Ireland	-	-	-	-	91,991	91,991	-	-	15,332	15,332
Netherlands	-	-	-	-	32,768	32,768	51	51	5,512	5,512
Total Proved	52,777	48,565	19	18	241,766	230,837	3,409	2,390	96,499	89,446
Probable[3]										
Australia	4,800	4,800	-	-	-	-	-	-	4,800	4,800
Canada	14,035	11,759	3	3	58,525	53,712	1,663	1,218	25,455	21,932
France	11,801	11,581	-	-	19	18	-	-	11,804	11,584
Ireland	-	-	-	-	12,968	12,968	-	-	2,161	2,161
Netherlands	-	-	-	-	32,741	32,741	56	56	5,513	5,513
Total Probable	30,636	28,140	3	3	104,253	99,439	1,719	1,275	49,733	45,990
Proved Plus Probable[2][3]										
Australia	17,497	17,497	-	-	-	-	-	-	17,497	17,497
Canada	29,988	25,302	22	21	174,936	159,224	5,020	3,558	64,187	55,418
France	35,928	33,906	-	-	615	584	-	-	36,030	34,003
Ireland	-	-	-	-	104,959	104,959	-	-	17,493	17,493
Netherlands	-	-	-	-	65,508	65,508	107	107	11,025	11,025
Total Proved Plus Probable	83,413	76,705	22	21	346,019	330,276	5,128	3,665	146,232	135,436

Net Present Values of Future Net Revenue - Based on Forecast Prices and Costs [8]

	Before Deducting Future Income Taxes Discounted At					After Deducting Future Income Taxes Discounted At				
(M$)	**0%**	**5%**	**10%**	**15%**	**20%**	**0%**	**5%**	**10%**	**15%**	**20%**
Proved Developed Producing[2][5]										
Australia	839,270	736,208	656,026	592,341	540,804	395,196	345,463	306,882	276,336	251,697
Canada	662,170	530,000	444,686	385,426	341,960	662,170	530,000	444,686	385,426	341,960
France	1,355,615	992,545	796,523	673,831	589,227	981,952	726,431	586,200	497,381	435,623
Ireland	-	-	-	-	-	-	-	-	-	-
Netherlands	128,327	117,842	109,178	101,932	95,795	97,650	88,557	81,135	75,002	69,872
Total Proved Developed Producing	2,985,382	2,376,595	2,006,414	1,753,530	1,567,786	2,136,968	1,690,450	1,418,904	1,234,146	1,099,151
Proved Developed Non-Producing[2][6]										
Australia	-	-	-	-	-	-	-	-	-	-
Canada	44,983	34,180	27,830	23,548	20,442	44,983	34,180	27,830	23,548	20,442
France	15,689	12,380	10,326	8,898	7,827	10,291	7,908	6,437	5,424	4,674
Ireland	-	-	-	-	-	-	-	-	-	-
Netherlands	89,596	64,352	48,369	37,724	30,323	69,135	47,642	34,436	25,893	20,114
Total Proved Developed Non-Producing	150,267	110,912	86,525	70,170	58,592	124,409	89,730	68,703	54,866	45,230
Proved Undeveloped[2][7]										
Australia	-	-	-	-	-	-	-	-	-	-
Canada	319,009	210,213	140,679	93,994	61,362	319,009	210,213	140,679	93,994	61,362
France	64,858	40,470	28,264	20,767	15,710	42,539	24,830	16,000	10,680	7,183
Ireland	568,171	388,065	263,654	175,714	112,306	568,171	388,065	263,654	175,714	112,306
Netherlands	-	-	-	-	-	-	-	-	-	-
Total Proved Undeveloped	952,038	638,748	432,597	290,475	189,378	929,719	623,108	420,333	280,388	180,851
Proved[2]										
Australia	839,270	736,208	656,026	592,341	540,804	395,196	345,463	306,882	276,336	251,697
Canada	1,026,162	774,393	613,195	502,969	423,764	1,026,162	774,393	613,195	502,969	423,764
France	1,436,161	1,045,395	835,114	703,496	612,764	1,034,782	759,169	608,637	513,485	447,480
Ireland	568,171	388,065	263,654	175,714	112,306	568,171	388,065	263,654	175,714	112,306
Netherlands	217,923	182,193	157,547	139,656	126,118	166,785	136,198	115,571	100,896	89,986
Total Proved	4,087,687	3,126,255	2,525,536	2,114,175	1,815,757	3,191,096	2,403,288	1,907,939	1,569,400	1,325,233
Probable[3]										
Australia	309,824	215,620	156,662	118,330	92,485	137,528	94,817	68,080	50,740	39,099
Canada	829,395	502,392	328,517	227,122	163,662	644,241	394,797	262,077	184,016	134,539
France	901,599	511,090	336,881	242,553	184,809	591,453	329,010	211,860	148,683	110,307
Ireland	120,336	82,228	58,108	42,299	31,604	120,336	82,228	58,108	42,299	31,604
Netherlands	299,235	208,221	157,460	126,287	105,620	185,512	122,472	89,346	69,970	57,599
Total Probable	2,460,389	1,519,551	1,037,627	756,590	578,180	1,679,070	1,023,324	689,471	495,708	373,148
Proved Plus Probable[2][3]										
Australia	1,149,094	951,829	812,688	710,670	633,289	532,724	440,280	374,962	327,076	290,796
Canada	1,855,558	1,276,785	941,711	730,091	587,426	1,670,403	1,169,190	875,272	686,985	558,303
France	2,337,761	1,556,485	1,171,994	946,048	797,573	1,626,235	1,088,178	820,497	662,168	557,787
Ireland	688,507	470,293	321,762	218,013	143,910	688,507	470,293	321,762	218,013	143,910
Netherlands	517,158	390,414	315,007	265,943	231,738	352,298	258,670	204,917	170,866	147,585
Total Proved Plus Probable	6,548,076	4,645,806	3,563,163	2,870,765	2,393,937	4,870,166	3,426,611	2,597,410	2,065,107	1,698,381

Total Future Net Revenue (Undiscounted) Based on Forecast Prices and Costs [8]

(M$)	**Revenue**	**Royalties**	**Operating Costs**	**Capital Development Costs**	**Abandonment Costs**	**Future Net Revenue Before Income Taxes**	**Future Income Taxes**	**Future Net Revenue After Income Taxes**
Proved[2]								
Australia	1,337,692	-	437,203	24,602	36,618	839,270	444,074	395,196
Canada	2,628,213	364,823	867,576	335,511	34,140	1,026,162	-	1,026,162
France	2,517,926	187,241	725,903	98,820	69,800	1,436,161	401,379	1,034,782
Ireland	1,002,775	-	185,936	239,901	8,766	568,171	-	568,171
Netherlands	352,826	-	110,522	11,532	12,850	217,923	51,137	166,785
Total Proved	7,839,432	552,064	2,327,141	710,366	162,175	4,087,687	896,591	3,191,096
Proved Plus Probable[2][3]								
Australia	1,877,536	-	655,870	32,602	39,970	1,149,094	616,370	532,724
Canada	4,707,012	666,874	1,463,176	675,286	46,117	1,855,558	185,154	1,670,403
France	3,836,836	212,280	1,000,304	198,738	87,753	2,337,761	711,526	1,626,235
Ireland	1,150,073	-	211,152	241,472	8,942	688,507	-	688,507
Netherlands	731,337	-	175,111	24,372	14,696	517,158	164,860	352,298
Total Proved Plus Probable	12,302,792	879,154	3,505,613	1,172,470	197,479	6,548,076	1,677,910	4,870,166

Future Net Revenue by Production Group Based on Forecast Prices and Costs [8]

	Net Present Value of Future Net Revenue Before Income Taxes (Discounted at 10% Per Year) (M$)	Unit Value ($/boe)
Proved[2]		
Light and medium oil	1,941,451	36.48
Heavy oil	826	30.05
Associated gas and non-associated gas	566,144	17.53
Non-conventional oil and gas activities	17,114	4.38
Total Proved	2,525,536	28.24
Proved Plus Probable[2][3]		
Light and medium oil	2,714,643	31.63
Heavy oil	921	28.99
Associated gas and non-associated gas	822,449	18.62
Non-conventional oil and gas activities	25,150	4.63
Total Proved Plus Probable	3,563,163	26.31

Forecast Prices used in Estimates [8]

	Light and Medium Crude Oil			Crude Oil	Natural Gas	Natural Gas Netherlands	Natural Gas Liquids	Inflation Rate	Exchange Rate
Year	WTI Cushing Oklahoma ($US/bbl)	Edmonton Par Price 40° API ($Cdn/bbl)	Cromer Medium 29.3° API ($Cdn/bbl)	Brent Blend FOB North Sea ($US/bbl)	AECO Gas Price ($Cdn/MMBtu)	TTF Gas Price ($Cdn/Mcf)	FOB Field Gate ($Cdn/bbl)	Percent Per Year	($US/$Cdn)
2011	94.83	95.15	87.57	110.63	3.68	9.52	77.15	2.0	1.012
Forecast									
2012	97.00	97.96	90.12	105.00	3.49	10.06	80.98	2.0	0.980
2013	100.00	101.02	92.94	105.00	4.13	10.23	82.50	2.0	0.980
2014	100.00	101.02	91.93	102.00	4.59	10.41	81.49	2.0	0.980
2015	100.00	101.02	91.93	100.00	5.05	10.71	81.49	2.0	0.980
2016	100.00	101.02	91.93	100.00	5.51	10.71	81.49	2.0	0.980
Thereafter	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	0.980

* All prices above from GLJ except Netherlands 2011 which is Vermilion's realized price.

Reconciliations of Changes in Reserves

The following tables set forth a reconciliation of the changes in Vermilion's company gross light and medium crude oil, associated and non-associated gas (combined) reserves as at December 31, 2011 against such reserves as at December 31, 2010 based on the forecast price and cost assumptions set forth in note 8 under the heading "Statement of Reserves Data and Other Oil and Gas Information - Future Net Revenue by Production Based on Forecast Prices and Costs".

Reconciliation of Company Gross Reserves by Principal Product Type - Based on Forecast Prices and Costs

AUSTRALIA	Total Oil			Light and Medium Oil			Heavy Oil			Natural Gas Liquids		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)
At December 31, 2010	13,198	6,500	19,698	13,198	6,500	19,698	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	100	(100)	-	100	(100)	-	-	-	-	-	-	-
Technical Revisions	2,380	(1,600)	780	2,380	(1,600)	780	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(2,981)	-	(2,981)	(2,981)	-	(2,981)	-	-	-	-	-	-
At December 31, 2011	12,697	4,800	17,497	12,697	4,800	17,497	-	-	-	-	-	-

	Total Gas			Conventional Natural Gas			Coal Bed Methane			BOE		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved Plus Probable (Mboe)
At December 31, 2010	-	-	-	-	-	-	-	-	-	13,198	6,500	19,698
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	100	(100)	-
Technical Revisions	-	-	-	-	-	-	-	-	-	2,380	(1,600)	780
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	(2,981)	-	(2,981)
At December 31, 2011	-	-	-	-	-	-	-	-	-	12,697	4,800	17,497

CANADA	Total Oil			Light and Medium Oil			Heavy Oil			Natural Gas Liquids		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)
At December 31, 2010	11,876	8,703	20,579	11,855	8,701	20,556	21	2	23	3,614	1,684	5,298
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	5,960	5,394	11,354	5,960	5,394	11,354	-	-	-	317	220	537
Technical Revisions	(18)	23	5	(22)	22	-	4	1	5	(100)	(242)	(341)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	(130)	(82)	(212)	(130)	(82)	(212)	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(1,716)	-	(1,716)	(1,710)	-	(1,710)	(6)	-	(6)	(473)	-	(473)
At December 31, 2011	15,972	14,038	30,010	15,953	14,035	29,988	19	3	22	3,358	1,662	5,020

	Total Gas			Conventional Natural Gas			Coal Bed Methane			BOE		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved Plus Probable (Mboe)
At December 31, 2010	114,766	49,826	164,592	83,950	37,717	121,667	30,816	12,109	42,925	34,618	18,691	53,309
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	12,140	9,353	21,493	12,140	9,353	21,493	-	-	-	8,301	7,172	15,473
Technical Revisions	8,888	1,576	10,464	10,706	2,759	13,464	(1,818)	(1,183)	(3,001)	1,363	45	1,408
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	(130)	(82)	(212)
Economic Factors	(3,550)	(2,230)	(5,780)	(1,600)	(1,065)	(2,665)	(1,950)	(1,165)	(3,115)	(592)	(371)	(963)
Production	(15,833)	-	(15,833)	(13,702)	-	(13,702)	(2,131)	-	(2,131)	(4,828)	-	(4,828)
At December 31, 2011	116,411	58,525	174,936	91,494	48,764	140,257	24,918	9,761	34,679	38,732	25,455	64,187

FRANCE			Total Oil			Light and Medium Oil			Heavy Oil			Natural Gas Liquids		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)
At December 31, 2010	26,310	12,992	39,302	26,310	12,992	39,302	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	243	241	484	243	241	484	-	-	-	-	-	-
Technical Revisions	534	(1,432)	(898)	534	(1,432)	(898)	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(2,960)	-	(2,960)	(2,960)	-	(2,960)	-	-	-	-	-	-
At December 31, 2011	24,127	11,801	35,928	24,127	11,801	35,928	-	-	-	-	-	-

			Total Gas			Conventional Natural Gas			Coal Bed Methane			BOE		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved Plus Probable (Mboe)
At December 31, 2010	2,481	74	2,555	2,481	74	2,555	-	-	-	26,724	13,004	39,728
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	243	241	484
Technical Revisions	(1,537)	(55)	(1,592)	(1,537)	(55)	(1,592)	-	-	-	277	(1,441)	(1,164)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(348)	-	(348)	(348)	-	(348)	-	-	-	(3,018)	-	(3,018)
At December 31, 2011	596	19	615	596	19	615	-	-	-	24,226	11,804	36,030

IRELAND			Total Oil			Light and Medium Oil			Heavy Oil			Natural Gas Liquids		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)
At December 31, 2010	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	-	-	-	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	-	-	-
At December 31, 2011	-	-	-	-	-	-	-	-	-	-	-	-

			Total Gas			Conventional Natural Gas			Coal Bed Methane			BOE		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved Plus Probable (Mboe)
At December 31, 2010	91,997	12,965	104,962	91,997	12,965	104,962	-	-	-	15,333	2,161	17,494
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	(6)	3	(3)	(6)	3	(3)	-	-	-	(1)	-	(1)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	-	-	-
At December 31, 2011	91,991	12,968	104,959	91,991	12,968	104,959	-	-	-	15,332	2,161	17,493

NETHERLANDS			Total Oil			Light and Medium Oil			Heavy Oil			Natural Gas Liquids		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)
At December 31, 2010	-	-	-	-	-	-	-	-	-	56	48	104
Discoveries	-	-	-	-	-	-	-	-	-	1	1	1
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	-	-	-	-	-	-	-	-	-	16	7	23
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	(21)	-	(21)
At December 31, 2011										51	56	107

			Total Gas			Conventional Natural Gas			Coal Bed Methane			BOE		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved Plus Probable (Mboe)
At December 31, 2010	38,954	33,025	71,979	38,954	33,025	71,979	-	-	-	6,548	5,552	12,100
Discoveries	501	510	1,011	501	510	1,011	-	-	-	84	86	170
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	5,313	(795)	4,518	5,313	(795)	4,518	-	-	-	901	(125)	776
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(12,000)	-	(12,000)	(12,000)	-	(12,000)	-	-	-	(2,021)	-	(2,021)
At December 31, 2011	32,768	32,740	65,508	32,768	32,740	65,508	-	-	-	5,512	5,513	11,025

TOTAL COMPANY			Total Oil			Light and Medium Oil			Heavy Oil			Natural Gas Liquids		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)
At December 31, 2010	51,384	28,195	79,579	51,363	28,193	79,556	21	2	23	3,670	1,732	5,402
Discoveries	-	-	-	-	-	-	-	-	-	1	1	1
Extensions & Improved Recovery	6,303	5,535	11,838	6,303	5,535	11,838	-	-	-	317	220	537
Technical Revisions	2,896	(3,009)	(113)	2,892	(3,010)	(118)	4	1	5	(84)	(234)	(318)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	(130)	(82)	(212)	(130)	(82)	(212)	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(7,657)	-	(7,657)	(7,651)	-	(7,651)	(6)	-	(6)	(494)	-	(494)
At December 31, 2011	52,796	30,639	83,435	52,777	30,636	83,413	19	3	22	3,409	1,718	5,127

			Total Gas			Conventional Natural Gas			Coal Bed Methane			BOE		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved Plus Probable (Mboe)
At December 31, 2010	248,198	95,890	344,088	217,382	83,781	301,163	30,816	12,109	42,925	96,421	45,908	142,329
Discoveries	501	510	1,011	501	510	1,011	-	-	-	84	86	170
Extensions & Improved Recovery	12,140	9,353	21,493	12,140	9,353	21,493	-	-	-	8,644	7,313	15,957
Technical Revisions	12,658	729	13,387	14,475	1,912	16,387	(1,818)	(1,183)	(3,001)	4,920	(3,121)	1,799
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	(130)	(82)	(212)
Economic Factors	(3,550)	(2,230)	(5,780)	(1,600)	(1,065)	(2,665)	(1,950)	(1,165)	(3,115)	(592)	(371)	(963)
Production	(28,181)	-	(28,181)	(26,050)	-	(26,050)	(2,131)	-	(2,131)	(12,848)	-	(12,848)
At December 31, 2011	241,766	104,252	346,018	216,849	94,491	311,339	24,918	9,761	34,679	96,499	49,733	146,232

Notes:

(1) "Gross Reserves" are Vermilion's working interest (operating or non-operating) share before deducting of royalties and without including any royalty interests of Vermilion. "Net Reserves" are Vermilion's working interest (operating or non-operating) share after deduction of royalty obligations, plus Vermilion's royalty interests in reserves.

(2) "Proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

(3) "Probable" reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

(4) "Developed" reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g. when compared to the cost of drilling a well) to put the reserves on production.

(5) "Developed Producing" reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

(6) "Developed Non-Producing" reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.

(7) "Undeveloped" reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

(8) The pricing assumptions used in the GLJ Report with respect to net values of future net revenue (forecast) as well as the inflation rates used for operating and capital costs are set forth above. See “Reserves and Future Net Revenue – Forecast Prices used in Estimates”. The NGL price is an aggregate of the individual natural gas liquids prices used in the Total Proved plus Probable evaluation. GLJ is an independent qualified reserves evaluator appointed pursuant to NI 51-101.

Undeveloped Reserves

Proved undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. These reserves have a 90% probability of being recovered. Vermilion's current plan is to develop these reserves in the following two years. This timetable may be altered depending on outside market forces, changes in capital allocations and impact of future acquisitions and dispositions.

Probable undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. These reserves have a 50% probability of being recovered. Vermilion's current plan is to develop these reserves over the next five years. In general, development of these reserves requires additional evaluation data to increase the probability of success to an acceptable level for Vermilion. This increases the timeline for the development of these reserves. This timetable may be altered depending on outside market forces, changes in capital allocations and impact of future acquisitions and dispositions.

Timing of Initial Undeveloped Reserves Assignment

Undeveloped Reserves Attributed in Current Year

	Light & Medium Oil (Mbbl)		Natural Gas (MMcf)		Coalbed Methane Gas (MMcf)		Natural Gas Liquids (Mbbl)		Total Oil Equivalent (Mboe)	
	First Attributed [1]	Booked	First Attributed [1]	Booked	First Attributed [1]	Booked	First Attributed [1]	Booked	First Attributed [1]	Booked
Proved										
Prior to 2009	2,678	2,678	2,289	2,289	21,009	21,009	128	128	6,689	6,689
2009	1,090	2,034	99,026	100,928	1,152	20,607	362	441	18,148	22,731
2010	4,627	6,588	6,454	107,633	4,943	12,958	268	751	6,795	27,438
2011	3,365	8,127	6,246	114,422	-	11,451	156	743	4,562	29,849
Probable										
Prior to 2009	8,120	8,120	25,466	25,466	16,961	16,961	964	964	16,155	16,155
2009	2,184	8,047	19,348	34,566	1,598	14,374	324	754	5,999	16,958
2010	6,306	12,417	8,106	38,296	2,435	8,066	342	931	8,405	21,075
2011	5,707	15,734	11,191	47,687	-	5,761	280	937	7,852	25,580

Note:

(1) “First Attributed” refers to reserves first attributed at year-end of the corresponding fiscal year

Future Development Costs

The table below sets out the future development costs deducted in estimation of future net revenue attributable to proved reserves and proved plus probable reserves (using forecast prices and undiscounted cost).

(M$)	Total Proved Estimated Using Forecast Prices and Costs	Total Proved Plus Probable Estimated Using Forecast Prices and Costs
Australia		
2012	3,900	11,900
2013	3,978	3,978
2014	4,058	4,058
2015	4,139	4,139
2016	4,221	4,221
Remainder	4,306	4,306
Total for all years undiscounted	24,602	32,602
Canada		
2012	147,897	181,594
2013	121,248	196,485
2014	45,198	187,049
2015	4,801	80,675
2016	3,973	6,166
Remainder	12,393	23,318
Total for all years undiscounted	335,511	675,286
France		
2012	10,226	14,545
2013	27,029	61,974
2014	17,771	53,583
2015	6,125	30,068
2016	6,090	6,158
Remainder	31,580	32,410
Total for all years undiscounted	98,820	198,738
Ireland		
2012	92,811	92,811
2013	80,594	80,594
2014	49,772	49,772
2015	5,232	5,232
2016	1,342	1,342
Remainder	10,151	11,722
Total for all years undiscounted	239,901	241,472
Netherlands		
2012	5,755	5,755
2013	1,849	4,073
2014	755	11,371
2015	770	770
2016	785	785
Remainder	1,618	1,618
Total for all years undiscounted	11,532	24,372
Total Company		
2012	260,588	306,605
2013	234,698	347,104
2014	117,553	305,833
2015	21,066	120,884
2016	16,412	18,672
Remainder	60,048	73,374
Total for all years undiscounted	710,366	1,172,470

Vermilion expects to source its capital expenditure requirements from internally generated cash flow and, as appropriate, from debt or equity financing. It is anticipated that costs of funding the future development costs will not impact development of its properties or Vermilion's reserves or future net revenue.

Oil and Gas Properties and Wells

The following table sets forth the number of wells in which Vermilion held a working interest as at December 31, 2011:

	Oil Gross Wells[1]	Oil Net Wells[2]	Natural Gas Gross Wells[1]	Natural Gas Net Wells[2]
Australia				
Producing	19	19	0	0
Non-producing	0	0	0	0
Canada				
Producing	319	198	582	396
Non-producing	89	49	95	63
France				
Producing	220	193	0	0
Non-producing	151	132	0	0
Ireland				
Producing	0	0	0	0
Non-producing	0	0	6	1
Netherlands				
Producing	0	0	53	40
Non-producing	0	0	19	14
Total Producing	558	410	635	436
Total Non-producing	240	181	120	78

Notes:
(1) "Gross" refers to the total wells in which Vermilion has an interest, directly or indirectly.
(2) "Net" refers to the total wells in which Vermilion has an interest, directly or indirectly, multiplied by the percentage working interest owned by Vermilion, directly or indirectly, therein.
(3) Well counts are based on wellbores.

Costs Incurred

The following table summarizes the capital expenditures made by Vermilion on oil and natural gas properties for the year ended December 31, 2011:

	Property Acquisition Costs				
(M$)	**Proved Properties**	**Unproved Properties**	**Exploration Costs**	**Development Costs**	**Total Costs**
Australia	-	-	773	19,880	20,653
Canada	38,755	-	74,724	250,974	364,453
France	-	-	3,448	54,086	57,534
Ireland	-	-	174	61,829	62,003
Netherlands	12,123	-	434	24,458	37,015
Total	50,878	-	79,553	411,227	541,658

Exploration and Development Activities

The following table sets forth the number of development and exploration wells which Vermilion completed during its 2011 financial year:

	Exploration Wells		Development Wells	
	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]
Australia				
Oil	-	-	-	-
Gas	-	-	-	-
Standing	-	-	-	-
Dry Holes	-	-	-	-
Total Completed	-	-	-	-
Canada				
Oil	-	-	71.0	44.4
Gas	-	-	3.0	2.4
Standing	-	-	8.0	4.4
Dry Holes	-	-	1.0	0.1
Total Completed	-	-	83.0	51.3
France				
Oil	-	-	1.0	1.0
Gas	-	-	-	-
Service	-	-	-	-
Standing	-	-	-	-
Dry Holes	-	-	-	-
Total Completed	-	-	1.0	1.0
Ireland				
Oil	-	-	-	-
Gas	-	-	-	-
Standing	-	-	-	-
Dry Holes	-	-	-	-
Total Completed	-	-	-	-
Netherlands				
Oil	-	-	-	-
Gas	-	-	-	-
Standing	2.0	0.9	-	-
Dry Holes	2.0	1.4	-	-
Total Completed	4.0	2.3	-	-
Total Company				
Oil	-	-	72.0	45.4
Gas	-	-	3.0	2.4
Service	-	-	-	-
Standing	2.0	0.9	8.0	4.4
Dry Holes	2.0	1.4	1.0	0.1
Total Completed	4.0	2.3	84.0	52.3

Notes:

(1) "Gross" refers to the total wells in which Vermilion has an interest, directly or indirectly.

(2) "Net" refers to the total wells in which Vermilion has an interest, directly or indirectly, multiplied by the percentage working interest owned by Vermilion, directly or indirectly therein.

Vermilion has currently budgeted $375 million for its 2012 capital program in Australia, Canada, France, Ireland and the Netherlands. The funds will be used to drill wells to develop reserves in its Canadian key area, the Cardium play in Drayton Valley, Central Alberta, and in Australia, France, Ireland and the Netherlands. A portion of the capital will be allocated to workovers, production optimization, and maintenance capital in each country.

Properties with No Attributed Reserves

The following table sets out Vermilion's undeveloped land as at December 31, 2011:

Country	Undeveloped Land Gross Acres[1]	Undeveloped Land Net Acres[2]
Australia	-	-
Canada	357,474	274,838
France	754,880	754,880
Ireland	57,531	10,643
Netherlands	430,222	267,457
Total	1,600,107	1,307,819

Notes:
(1) "Gross" refers to the total acres in which Vermilion has an interest, directly or indirectly.
(2) "Net" refers to the total acres in which Vermilion has an interest, directly or indirectly, multiplied by the percentage working interest owned by Vermilion, directly or indirectly therein.

Vermilion expects its rights to explore, develop and exploit approximately 16,531 net acres in Canada and 228,564 net acres in France which expire within one year. In the Netherlands, Ireland and Australia, no such rights expire within one year.

Abandonment and Reclamation Costs

Vermilion has estimated its abandonment costs by determining amounts for facility decommissioning and reclamation costs (including salvage) by area in Australia, Canada, France, Ireland and the Netherlands. As well, Vermilion has determined abandonment costs (including salvage) and reclamation costs per well, by area and applied this amount to its net wells in each of the countries. The number of net wells to be abandoned is 1,079 in Canada, 384 in France, 58 in the Netherlands, 20 in Australia and one in Ireland.

The total amount of costs including future drilling locations, net of salvage, as estimated in the GLJ Report, is set forth in the following table:

Country	Undiscounted (M$)	Discounted 10% (M$)
Australia	36,618	13,800
Canada	34,140	11,176
France	69,800	20,209
Ireland	8,766	2,930
Netherlands	12,850	8,274
Total	162,174	56,389

In estimating the future net revenue, it is important to note that future costs associated with abandonment of surface facilities, well site reclamation, pipeline abandonments, non-producing wells and reclamation costs, not including downhole costs listed above, are estimated by management of the Company as:

Country	Facilities Undiscounted (M$)	Discounted 10% (M$)
Australia	138,513	28,312
Canada	79,322	39,981
France	57,073	7,022
Ireland	20,216	4,100
Netherlands	93,924	50,206
Total	389,048	129,621

In the next three years, as estimated in the GLJ Report, Vermilion expects to pay abandonment and reclamation costs of:

Country	Undiscounted (M$)	Discounted 10% (M$)
Australia	-	-
Canada	1,848	1,588
France	3,439	2,877
Ireland	-	-
Netherlands	3,485	3,029
Total	8,772	7,494

Tax Information

In Canada, the Company is subject to normal corporate tax rates on its taxable income. It is not expected to have Canadian taxes payable in the immediate future as there are sufficient tax pools available to reduce future taxable income, subject to changes in the business model or significant increases to commodity prices.

In France, the Company is currently subject to an approximate 34% corporate tax rate after eligible deductions. In the Netherlands, the Company is currently subject to an approximate 46% corporate tax rate after eligible deductions. In Australia, the Company is currently subject to an approximate 30% corporate tax rate after eligible deductions in addition to PRRT which is approximately 40%. Ireland is subject to tax at 25% after eligible deductions.

Production Estimates

The following table sets forth the volume of production estimated for the year 2012 as reflected in the estimates of gross proved reserves and gross proved plus probable reserves:

	Light and Medium Oil (bbl/d)	Heavy Oil (bbl/d)	Natural Gas (Mcf/d)	Natural Gas Liquids (bbl/d)	BOE (boe/d)
Australia					
Proved	6,860	-	-	-	6,860
Proved Plus Probable	7,123	-	-	-	7,123
Canada					
Proved	6,134	10	39,202	1,237	13,915
Proved Plus Probable	7,060	10	40,988	1,290	15,191
France					
Proved	7,631	-	880	-	7,777
Proved Plus Probable	7,959	-	900	-	8,109
Ireland					
Proved	-	-	-	-	-
Proved Plus Probable	-	-	-	-	-
Netherlands					
Proved	-	-	22,748	32	3,823
Proved Plus Probable	-	-	31,905	47	5,364
Total Proved	20,625	10	62,830	1,269	32,375
Total Proved Plus Probable	22,142	10	73,793	1,337	35,787

Production History

The following table sets forth certain information in respect of production, product prices received, royalties, production costs and netbacks received by Vermilion for each quarter of its most recently completed financial year. Vermilion had no production from its Ireland assets in 2011. Light and medium oil in the following table includes any amounts generated by the sale of heavy oil and is deemed to be immaterial by Vermilion.

	Three Months Ended March 31, 2011	Three Months Ended June 30, 2011	Three Months Ended September 30, 2011	Three Months Ended December 31, 2011
Australia				
Average Daily Production				
Light and Medium Oil (bbl/d)	8,309	8,692	7,992	7,686
Natural Gas (MMcf/d)	-	-	-	-
Natural Gas Liquids (bbl/d)	-	-	-	-
Average Net Prices Received				
Light and Medium Oil ($/bbl)	99.23	132.87	102.98	108.00
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/bbl)	-	-	-	-
Royalties[(1)]				
Light and Medium Oil ($/bbl)	-	-	-	-
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/bbl)	-	-	-	-
Production Costs				
Light and Medium Oil ($/bbl)	14.90	14.91	15.70	17.00
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/bbl)	-	-	-	-
Netback Received				
Light and Medium Oil ($/bbl)	84.33	117.96	87.28	91.00
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/bbl)	-	-	-	-
Canada				
Average Daily Production				
Light and Medium Oil (bbl/d)	3,801	3,856	4,527	6,591
Natural Gas (MMcf/d)	43.31	43.30	42.94	43.96
Natural Gas Liquids (bbl/d)	1,285	1,353	1,304	1,246
Average Net Prices Received				
Light and Medium Oil ($/bbl)	87.88	100.39	89.42	98.09
Natural Gas ($/Mcf)	4.00	4.00	3.95	3.38
Natural Gas Liquids ($/bbl)	76.35	82.33	75.42	80.14
Royalties				
Light and Medium Oil ($/bbl)	13.77	13.74	11.81	11.37
Natural Gas ($/Mcf)	0.37	0.06	0.20	0.19
Natural Gas Liquids ($/bbl)	12.52	1.80	6.49	6.53
Transportation				
Light and Medium Oil ($/bbl)	1.56	1.43	1.68	1.75
Natural Gas ($/Mcf)	0.20	0.18	0.18	0.18
Natural Gas Liquids ($/bbl)	1.79	2.04	1.91	1.78
Production Costs				
Light and Medium Oil ($/bbl)	16.98	18.42	12.82	9.04
Natural Gas ($/Mcf)	1.48	1.49	1.73	1.43
Natural Gas Liquids ($/bbl)	8.73	8.94	10.73	6.25
Netback Received				
Light and Medium Oil ($/bbl)	55.57	66.80	63.11	75.93
Natural Gas ($/Mcf)	1.95	2.27	1.84	1.58
Natural Gas Liquids ($/bbl)	53.31	69.55	56.29	65.58

Note:

(1) As a result of Vermilion's adoption of IFRS, Vermilion no longer includes PRRT within royalties. Under IFRS, Vermilion accounts for PRRT as an income tax and accordingly, royalty netbacks exclude PRRT.

France				
Average Daily Production				
Light and Medium Oil (bbl/d)	8,411	8,273	7,946	7,819
Natural Gas (MMcf/d)	1.02	0.88	0.97	0.94
Natural Gas Liquids (bbl/d)	-	-	-	-
Average Net Prices Received				
Light and Medium Oil ($/bbl)	101.58	108.58	109.06	113.39
Natural Gas ($/Mcf)	10.64	11.53	12.66	13.15
Natural Gas Liquids ($/bbl)	-	-	-	-
Royalties				
Light and Medium Oil ($/bbl)	5.96	6.30	6.98	6.68
Natural Gas ($/Mcf)	0.21	0.26	0.33	0.27
Natural Gas Liquids ($/bbl)	-	-	-	-
Transportation				
Light and Medium Oil ($/bbl)	3.13	2.96	3.51	4.11
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/bbl)	-	-	-	-
Production Costs				
Light and Medium Oil ($/bbl)	12.44	14.97	19.18	15.33
Natural Gas ($/Mcf)	3.34	3.30	2.94	4.07
Natural Gas Liquids ($/bbl)	-	-	-	-
Netback Received				
Light and Medium Oil ($/bbl)	80.05	84.35	79.39	87.27
Natural Gas ($/Mcf)	7.09	7.97	9.39	8.81
Natural Gas Liquids ($/bbl)	-	-	-	-
Netherlands				
Average Daily Production				
Light and Medium Oil (bbl/d)	-	-	-	-
Natural Gas (MMcf/d)	29.96	33.77	33.15	34.58
Natural Gas Liquids (bbl/d)	46	54	64	66
Average Net Prices Received				
Light and Medium Oil ($/bbl)	-	-	-	-
Natural Gas ($/Mcf)	8.45	9.42	9.61	10.43
Natural Gas Liquids ($/bbl)	91.81	97.30	95.41	92.59
Production Costs				
Light and Medium Oil ($/bbl)	-	-	-	-
Natural Gas ($/Mcf)	1.63	1.29	1.31	1.62
Natural Gas Liquids ($/bbl)	-	-	-	-
Netback Received				
Light and Medium Oil ($/bbl)	-	-	-	-
Natural Gas ($/Mcf)	6.82	8.13	8.30	8.81
Natural Gas Liquids ($/bbl)	91.81	97.30	95.41	92.59
Total				
Average Daily Production				
Light and Medium Oil (bbl/d)	20,521	20,821	20,465	22,096
Natural Gas (MMcf/d)	74.29	77.95	77.06	79.48
Natural Gas Liquids (bbl/d)	1,331	1,407	1,368	1,312
Average Net Prices Received				
Light and Medium Oil ($/bbl)	98.09	117.21	102.34	106.95
Natural Gas ($/Mcf)	5.89	6.43	6.50	6.57
Natural Gas Liquids ($/bbl)	76.88	82.90	76.36	80.77
Royalties				
Light and Medium Oil ($/bbl)	4.99	5.05	5.32	5.75
Natural Gas ($/Mcf)	0.22	0.03	0.11	0.11
Natural Gas Liquids ($/bbl)	22.01	21.36	21.08	21.02
Transportation Costs				
Light and Medium Oil ($/bbl)	1.57	1.44	1.73	1.97
Natural Gas ($/Mcf)	0.12	0.10	0.10	0.10
Natural Gas Liquids ($/bbl)	1.73	1.96	1.82	1.69
Production Costs				
Light and Medium Oil ($/bbl)	14.28	15.59	16.41	14.04
Natural Gas ($/Mcf)	1.57	1.42	1.57	1.54
Natural Gas Liquids ($/bbl)	8.43	8.60	10.22	5.94
Netback Received				
Light and Medium Oil ($/bbl)	77.25	95.13	78.88	85.19
Natural Gas ($/Mcf)	3.98	4.88	4.72	4.82
Natural Gas Liquids ($/bbl)	44.71	50.98	43.24	52.12

Marketing

The nature of Vermilion's operations results in exposure to fluctuations in commodity prices, interest rates and foreign currency exchange rates. Vermilion monitors and, when appropriate, uses derivative financial instruments to manage its exposure to these fluctuations. All transactions of this nature entered into by Vermilion are related to an underlying financial position or to future petroleum and natural gas production. Vermilion does not use derivative financial instruments for speculative purposes. Vermilion has elected not to designate any of its price risk management activities as accounting hedges and thus accounts for changes in fair value in net earnings at each reporting period. During the normal course of business, Vermilion may enter into fixed price arrangements to sell a portion of its production or purchase commodities for operational use. Vermilion does not apply fair value accounting on these contracts as they were entered into and continue to be held for the sale of production or operational use in accordance with the Company's expected requirements. Vermilion does not obtain collateral or other security to support its financial derivatives as management reviews the creditworthiness of its counterparties prior to entering into derivative contracts.

The following table summarizes Vermilion's outstanding financial derivative positions as at December 31, 2011:

Risk Management	Funded Cost	bbls/d	US $/bbl
Collar - WTI			
January 2012 to June 2012	US $1.00/bbl	500	78.00 - 97.25
January 2012 to June 2012	US $1.00/bbl	500	78.00 - 101.80
January 2012 to June 2012	US $1.00/bbl	500	82.00 - 116.20
January 2012 to June 2012	US $1.00/bbl	500	82.00 - 116.25
January 2012 to June 2012	US $1.00/bbl	350	82.00 - 121.75
January 2012 to June 2012	US $1.00/bbl	250	82.00 - 124.05
January 2012 to June 2012	US $1.00/bbl	250	82.00 - 123.00
January 2012 to December 2012	US $1.00/bbl	250	82.00 - 119.45
July 2012 to December 2012	US $1.00/bbl	500	78.00 - 104.15
July 2012 to December 2012	US $1.00/bbl	500	82.00 - 99.35
July 2012 to December 2012	US $1.00/bbl	500	82.00 - 115.10
Collar - DATED BRENT			
January 2012 to June 2012	US $1.00/bbl	750	82.00 - 105.60
January 2012 to June 2012	US $1.00/bbl	750	82.00 - 104.80
January 2012 to June 2012	US $1.00/bbl	750	82.00 - 106.10
January 2012 to June 2012	US $1.00/bbl	500	95.00 - 120.65
January 2012 to June 2012	US $1.00/bbl	350	95.00 - 123.05
January 2012 to December 2012	US $1.00/bbl	1,000	82.00 - 113.40
January 2012 to December 2012	US $1.00/bbl	500	82.00 - 115.50
January 2012 to December 2012	US $1.00/bbl	500	82.00 - 130.75
July 2012 to December 2012	US $1.00/bbl	1,000	82.00 - 126.55
July 2012 to December 2012	US $1.00/bbl	1,000	82.00 - 126.05
Put - DATED BRENT			
January 2012 to December 2012	US $4.46/bbl	600	83.00
January 2012 to December 2012	US $4.90/bbl	600	83.00
January 2012 to December 2012	US $4.49/bbl	600	83.00
January 2012 to December 2012	US $4.39/bbl	600	83.00
January 2012 to December 2012	US $3.65/bbl	500	83.00

ADDITIONAL INFORMATION RESPECTING VERMILION ENERGY INC.

Management

Vermilion has a board of directors currently consisting of seven individuals. The directors are elected by the Company at the direction of Shareholders by ordinary resolution, and hold office until the Meeting. As at March 5, 2012, the directors and officers of Vermilion, as a group, beneficially owned, or controlled or directed, directly or indirectly, 4,753,495 common shares representing approximately 4.9% of the issued and outstanding common shares.

The following table sets forth certain information respecting the current directors and officers of Vermilion. References to Vermilion in the following table for dates prior to the Conversion Arrangement refer to VRL and to the Company following the date of the Conversion Arrangement.

Directors Name and Municipality of Residence	**Office Held**	**Year First Elected or Appointed as Director**	**Principal Occupation During the Past Five Years**
Lorenzo Donadeo Calgary, Alberta, Canada	President and Chief Executive Officer and Director	1994	Since 2003, President and Chief Executive Officer of Vermilion
W. Kenneth Davidson (2)(3) Oakville, Ontario, Canada	Director	2005	Since 2000, Director of Millar Western Forest Products Ltd., a private forest products company From 2009 to February 2011, Director of Realex Properties Corp., a public real estate company
Claudio A. Ghersinich (2)(4)(5) Calgary, Alberta, Canada	Director	1994	Since 2005, President of Carrera Investments Corp., a private investment company
Joseph F. Killi (2)(3) Calgary, Alberta, Canada	Director	1999	Since 2008, President and Chief Executive Officer and director of Wilmington Capital Management Inc., a public investment company. From January 2011 to December 2011, Executive Chairman of Parkbridge Lifestyle Communities Inc., a private real estate company From 2005 to January 2011, Executive Chairman of Parkbridge Lifestyle Communities Inc., a public real estate company From 2005 to February 2011, Vice Chairman of Realex Properties Corp., a public real estate company Since 1993, President of Rosebridge Capital Corp. Inc., a private real estate investment company
Larry J. Macdonald (1)(2)(3)(4)(5) Okotoks, Alberta, Canada	Director and Chairman of the Board	2002	Since 2003, Chairman & Chief Executive Officer and a director of Point Energy Ltd., a private oil and gas company Since 2003, Managing Director of Northpoint Energy Ltd., a private oil and gas company
William F. Madison (2)(4)(5) Sugar Land, Texas, USA	Director	2004	From 1999 to 2006, a director of Montana Tech Foundation of the University of Montana System, serving as Chairman during 2004 and 2005 Since 2007, Director of Canadian Oil Recovery and Remediation Enterprise, Inc., a public oil recovery and remediation company

Timothy R. Marchant (3)(4)(5) Calgary, Alberta, Canada	Director	2010	2009 to present, Adjunct Professor of Strategy and Energy Geopolitics, Haskayne School of Business Since December, 2011, Executive Chair or Anatolia Energy Corp., a public oil and gas company 2007 to 2009, Vice President, Middle East Business Development for BP International 2004 to 2007, President, BP Kuwait

Notes:
(1) Chairman of the Board
(2) Member of the Audit Committee
(3) Member of the Governance and Human Resources Committee
(4) Member of the Health, Safety and Environment Committee
(5) Member of the Independent Reserves Committee

Officers

Name and Municipality of Residence	Office Held	Principal Occupation During the Past Five Years
John D. Donovan Calgary, Alberta, Canada	Executive Vice President Business Development	Since 2005, Executive Vice President, Business Development of Vermilion
Curtis W. Hicks Calgary, Alberta, Canada	Executive Vice President and Chief Financial Officer	Since 2004, Executive Vice President and Chief Financial Officer of Vermilion
G.R. (Bob) Mac Dougall Calgary, Alberta, Canada	Executive Vice President and Chief Operating Officer	Since 2006, Executive Vice President and Chief Operating Officer of Vermilion
Mona Jasinski Calgary, Alberta, Canada	Executive Vice President People	Since 2011, Executive Vice President People of Vermilion 2009 to 2011, Vice President People of Vermilion 2004 to 2009, HR Manager, Shell Onshore Production, North America
Raj C. Patel Calgary, Alberta, Canada	Vice President Marketing	Since 2001, Vice President, Marketing of Vermilion
Peter Sider Biscarrosse, France	Vice President European Operations	Since July 2009, Vice President European Operations March 2008 to July 2009, Regional General Manager, European Operations 2006 to March 2008, Managing Director of Vermilion Oil & Gas Netherlands B.V., a subsidiary of the Company
Robert J. Engbloom, Q.C. Calgary, Alberta, Canada	Corporate Secretary	Since January 1, 2012, partner with and Deputy Chair of Norton Rose Canada LLP, a law firm 1999 to 2011, partner with Macleod Dixon LLP, a law firm

Common Shares

Each common share entitles the holder to receive notice of and to attend all meetings of the shareholders of the Company and to one vote at such meetings. The holders of common shares will be, at the discretion of the board and subject to applicable legal restrictions, entitled to receive any dividends declared by the board on the common shares. The holders of common shares will be entitled to share equally in any distribution of the assets of the Company upon the liquidation, dissolution, bankruptcy or winding-up of the Company or other distribution of its assets among the Shareholders for the purpose of winding-up its affairs.

Cash Dividends

The Company expects to pay dividends on a monthly basis in a manner similar to the former approach of the Trust relating to distributions. However, all decisions with respect to the declaration of dividends on the common shares will be made by the board on the basis of the Company's earnings, financial requirements and other conditions existing at such future time, planned acquisitions, income tax payable by the Company, crude oil and natural gas prices and access to capital markets, as well as the satisfaction of solvency tests imposed by the ABCA on corporations for the declaration and payment of dividends. It is expected that the dividends will be "eligible dividends" for income tax purposes and thus qualify for the enhanced gross-up and tax credit regime for certain shareholders of the Company.

Record of Cash Dividends

The following table sets forth the amount of per period cash distributions per Unit declared by the Trust since the completion of the 2003 Arrangement on January 22, 2003 and the per period cash dividends per common share declared by the Company since the completion of the Conversion Arrangement on September 1, 2010. Dividends are generally paid on the 15th day of the month following the month of declaration. Until the December 14, 2007 distribution announcement, Vermilion had paid distributions of $0.17 per Trust Unit per month. Starting with the January 15, 2008 payment date, Vermilion has paid distributions/dividends of $0.19 per Trust Unit /common share per month.

Period	Distribution Amount for Period per Trust Unit
As Vermilion Energy Trust	
2003 – January 22 to December 31	$ 1.87
2004 – January to December	$ 2.04
2005 – January to December	$ 2.04
2006 – January to December	$ 2.04
2007 – January to December	$ 2.06
2008 – January to December	$ 2.28
2009 – January to December	$ 2.28
2010 – January to September (1)	$ 1.71

Period	Dividend Amount for Period per Common Share
As Vermilion Energy Inc.	
2010 – September to December (1)	$ 0.57
2011 – January to December	$ 2.28
2012 – January to February	$ 0.38
Total cash dividends since January 22, 2003	$ 19.55

Notes:

(1) Total cash dividends paid out in 2010 by Vermilion and the Trust to a holder of a common share who was a former holder of a Trust Unit equals $2.28.

Dividend Reinvestment Plan

The Company has established a DRIP Plan. The DRIP Plan is only available to registered Shareholders who are residents of Canada.

Under the DRIP Plan, registered Shareholders may, at their option, reinvest their cash dividends to purchase additional common shares (the "DRIP common shares") by directing the Plan Agent (as defined below) to apply dividends on their existing common shares to the purchase of DRIP common shares. Computershare Trust Company of Canada in its capacity as plan agent (the "Plan Agent") will apply cash dividends towards the purchase of DRIP common shares from the Company, subject to certain limitations either from treasury or at the discretion of Vermilion through the facilities of the TSX. DRIP common shares will be acquired either at the average market price at which DRIP common shares are acquired through the facilities of the TSX or from treasury based on the weighted average of the previous 10 days of trading prior to the applicable dividend. Participants in the DRIP Plan will also receive additional dividends of common shares equal to 5% of the DRIP common shares purchased with their dividends. Participants will not have to pay any brokerage fees or service charges in connection with the purchase of DRIP common shares.

Registered Shareholders may, after electing to participate in the DRIP Plan, terminate their participation in the DRIP Plan by written notice to the Plan Agent. That notice, if actually received no later than five (5) business days prior to a Dividend Record Date, will have effect for the dividend to be made on the following Dividend Payment Date. Thereafter, dividends to those Shareholders will be in cash. The Company may amend, suspend or terminate the DRIP Plan in its sole discretion provided that any amendment to the DRIP Plan must be approved by the TSX and that any amendment, modification or suspension shall have no retroactive effect if it would prejudice the interests of the participants. The Company is not required to issue common shares into any jurisdiction where the issuance would be illegal.

Shareholder Rights Plan

A unitholder rights plan was first implemented in 2003 in conjunction with the 2003 Arrangement. At each of the annual and special meetings of holders of Trust Units held in 2006 and 2009, the unitholders rights plan was renewed and approved by holders of the Trust Units. In conjunction with the Conversion Arrangement, the Rights Plan for the Company was approved. The objectives of the Rights Plan are to ensure, to the extent possible, that all Shareholders are treated equally and fairly in connection with any takeover bid for the Company. Takeover bids may be structured to be coercive or may be initiated at a time when the board of directors of Vermilion will have a difficult time preparing an adequate response to the offer. Accordingly, such offers do not always result in Shareholders receiving equal or fair treatment or full or maximum value for their investment. Under current Canadian securities legislation, a takeover bid is required to remain open for 35 days, a period of time which may be insufficient for the directors to:

(a) evaluate a takeover bid (particularly if it includes share or trust unit consideration);

(b) explore, develop and pursue alternatives which are superior to the takeover bid and which could maximize Shareholder value; and

(c) make reasoned recommendations to the Shareholders.

The Rights Plan discourages discriminatory, coercive or unfair takeovers of the Company and gives the board of directors of Vermilion time if, in the circumstances, the board of directors determines it is appropriate to take such time, to pursue alternatives to maximize Shareholder value in the event an unsolicited takeover bid is made for all or a portion of the outstanding common shares of the Company. As set forth in detail below, the Rights Plan discourages coercive hostile takeover bids by creating the potential that any common shares which may be acquired or held by such a bidder will be significantly diluted. The potential for significant dilution to the holdings of such a bidder can occur as the Rights Plan provides that all holders of common shares who are not related to the bidder will be entitled to exercise rights issued to them under the Rights Plan and to acquire common shares at a substantial discount to prevailing market prices. The bidder or the persons related to the bidder will not be entitled to exercise any Rights under the Rights Plan. Accordingly, the Rights Plan will encourage potential bidders to make takeover bids by means of a Permitted Bid (as defined below) or to approach the board of directors of Vermilion to negotiate a mutually acceptable transaction. The Permitted Bid provisions of the Rights Plan are designed to ensure that in any takeover bid for outstanding common shares of the Company all Shareholders are treated equally and are given adequate time to properly assess such takeover bid on a fully-informed basis.

The Rights Plan was not proposed in response to, or in anticipation of, any pending, threatened or proposed acquisition or takeover bid. The board of directors did not adopt the Rights Plan to prevent a takeover of the Company, to secure the continuance of management or the directors of the Company in their respective offices or to deter fair offers for the Common Shares of the Company.

Summary of the Plan

The following summary of terms of the Rights Plan is qualified in its entirety by reference to the text of the Shareholder Rights Plan Agreement. A copy of the Shareholder Rights Plan Agreement will be available in its entirety upon request at the head office of Vermilion during normal business hours.

Term

The Rights Plan will remain in effect until termination of the annual meeting of Shareholders of the Company in 2013 unless the term of the Shareholder Rights Plan Agreement is extended beyond such date by resolution of Shareholders.

Issue of Rights

One right (a "Right") has been issued by the Company pursuant to the Shareholder Rights Plan Agreement in respect of each common share of the Company outstanding at the close of business on September 1, 2010 (the "Record Time"). One Right will also be issued for each additional common share issued after the Record Time and prior to the earlier of the Separation Time (as defined below) or the Expiration Time (as defined below).

Rights Exercise Privilege

The Rights will separate from the voting common shares to which they are attached and become exercisable at the time (the "Separation Time") which is 10 trading days following the date a person becomes an Acquiring Person (as defined below) or announces an intention to make a takeover bid that is not an acquisition pursuant to a takeover bid permitted by the Rights Plan (a "Permitted Bid").

Any transaction or event in which a person (an "Acquiring Person"), including associates and affiliates and others acting in concert, acquires (other than pursuant to an exemption available under the Rights Plan or a Permitted Bid) Beneficial Ownership (as defined in the Rights Plan) of 20% or more of the voting securities of the Company is referred to as a "Flip-in Event". Any Rights held by an Acquiring Person on or after the earlier of the Separation Time or the first date of public announcement by the Company or an Acquiring Person that an Acquiring Person has become such, will become void and the Rights (other than those held by the Acquiring Person) will permit the holder to purchase common shares at a substantial discount to their prevailing market price at the time.

The issuance of the Rights is not dilutive and will not affect reported earnings or cash flow per common share until the Rights separate from the underlying common shares and become exercisable or until the exercise of the Rights. The issuance of the Rights will not change the manner in which Shareholders currently trade their common shares.

Permitted Lock-Up Agreement

A person will not become an Acquiring Person by virtue of having entered into an agreement (a "Permitted Lock-Up Agreement") with a Shareholder whereby the Shareholder agrees to deposit or tender voting common shares to a takeover bid made by such person, provided that the agreement meets certain requirements including:

(a) the terms of the agreement are publicly disclosed and a copy of the agreement is publicly available;

(b) the Shareholder who has agreed to tender voting common shares to the takeover bid (the "Lock-Up Bid") made by the other party to the agreement is permitted to terminate its obligation under the agreement in order to tender voting common shares to another takeover bid or transaction where: (i) the offer price or value of the consideration payable under the other takeover bid or transaction is greater than the price or value of the consideration per common share at which the Shareholder has agreed to deposit or tender voting common shares to the Lock-Up Bid or is equal to or greater than a specified minimum which is not more than 7% higher than the offer price under the Lock-Up Bid; and (ii) if the number of voting common shares offered to be purchased under the Lock-Up Bid is less than all of the voting common shares held by Shareholders (excluding common shares held by the offeror), the number of voting common shares offered to be purchased under the other takeover bid or transaction (at an offer price not lower than in the Lock-Up Bid) is greater than the number of voting common shares offered to be purchased under the Lock-Up Bid or is equal to or greater than a specified number which is not more than 7% higher than the number of voting common shares offered to be purchased under the Lock-Up Bid; and

(c) no break-up fees or other penalties that exceed in the aggregate the greater of 2.5% of the price or value of the consideration payable under the Lock-Up Bid and 50% of the increase in consideration resulting from another takeover bid or transaction shall be payable by the Shareholder if the Shareholder fails to deposit or tender voting common shares to the Lock-Up Bid.

Certificates and Transferability

Prior to the Separation Time, the Rights will be evidenced by a legend imprinted on certificates for common shares issued from and after the effective date (the "Effective Date") of the Shareholder Rights Plan Agreement (being the later of the date of the Shareholder Rights Plan Agreement and the receipt by the Company of all regulatory approvals with respect to the Shareholder Rights Plan Agreement). Rights are also attached to common shares outstanding on the Effective Date, although certificates issued prior to the Effective Date will not bear such a legend. Shareholders are not required to return their certificates in order to have the benefit of the Rights. Prior to the Separation Time, Rights will trade together with the Company common shares and will not be exercisable or transferable separately from the common shares. From and after the Separation Time, the Rights will become exercisable, will be evidenced by Rights Certificates and will be transferable separately from the common shares.

Permitted Bid Requirements

The requirements of a "Permitted Bid" include the following:

(a) the takeover bid must be made by means of a takeover bid circular;

(b) the takeover bid is made to all holders of voting common shares as registered on the books of the Company, other than the offeror;

(c) the takeover bid contains, and the take-up and payment for securities tendered or deposited is subject to, an irrevocable and unqualified provision that no voting common shares will be taken up or paid for pursuant to the takeover bid prior to the close of business on the date which is not less than 45 days following the date of the takeover bid and only if at such date more than 50% of the voting common shares held by independent Shareholders shall have been deposited or tendered pursuant to the takeover bid and not withdrawn;

(d) the takeover bid contains an irrevocable and unqualified provision that unless the takeover bid is withdrawn, voting common shares may be deposited pursuant to such takeover bid at any time during the period of time between the date of the takeover bid and the date on which voting common shares may be taken up and paid for and that any voting common shares deposited pursuant to the takeover bid may be withdrawn until taken up and paid for; and

(e) the takeover bid contains an irrevocable and unqualified provision that if, on the date on which voting common shares may be taken up and paid for, more than 50% of the voting common shares held by independent Shareholders shall have been deposited pursuant to the takeover bid and not withdrawn, the offeror will make a public announcement of that fact and the takeover bid will remain open for deposits and tenders of voting common shares for not less than ten business days from the date of such public announcement.

The Rights Plan allows for a competing Permitted Bid (a "Competing Permitted Bid") to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all of the requirements of a Permitted Bid except that it may expire on the same date as the Permitted Bid, subject to the requirement that it be outstanding for a minimum period of 35 days.

Waiver and Redemption

If a potential offeror does not desire to make a Permitted Bid, it can negotiate with, and obtain the prior approval of, the board of directors to make a takeover bid by way of a takeover bid circular sent to all holders of voting common shares on terms which the board of directors considers fair to all Shareholders. In such circumstances, the board of directors may waive the application of the Rights Plan thereby allowing such bid to proceed without dilution to the offeror. Any waiver of the application of the Rights Plan in respect of a particular takeover bid shall also constitute a waiver of any other takeover bid which is made by means of a takeover bid circular to all holders of voting common shares while the initial takeover bid is outstanding. The board of directors may also waive the application of the Rights Plan in respect of a particular Flip-in Event that has occurred through inadvertence, provided that the Acquiring Person that inadvertently triggered such Flip-in Event reduces its beneficial holdings to less than 20% of the outstanding voting common shares of the Company within 14 days or such earlier or later date as may be specified by the board. With the prior consent of the holders of voting common shares, the board of directors may, prior to the occurrence of a Flip-in Event that would occur by reason of an acquisition of voting common shares otherwise than pursuant to the foregoing, waive the application of the Rights Plan to such Flip-in Event.

The board of directors may, with the prior consent of the holders of voting common shares, at any time prior to the occurrence of a Flip-in Event, elect to redeem all but not less than all of the then outstanding Rights at a redemption price of $0.00001 per Right. Rights are deemed to be redeemed following completion of a Permitted Bid, a Competing Permitted Bid or a takeover bid in respect of which the board of directors has waived the application of the Rights Plan.

Exemptions for Investment Advisors

Investment advisors (for client accounts), trust companies (acting in their capacity as trustees or administrators), statutory bodies whose business includes the management of funds (for employee benefit plans, pension plans, or insurance plans of various public bodies) and administrators or trustees of registered pension plans or funds acquiring greater than 20% of the voting common shares are exempted from triggering a Flip-in Event, provided they are not making, either alone or jointly or in concert with any other person, a takeover bid.

Board of Directors

The adoption of the Rights Plan does not in any way lessen or affect the duty of the board of directors to act honestly and in good faith with a view to the best interests of the Company. The board of directors, when a takeover bid or similar offer is made, will continue to have the duty and power to take such actions and make such recommendations to Shareholders as are considered appropriate.

Amendment

The Company may, with the prior approval of Shareholders (or the holders of Rights if the Separation Time has occurred), supplement amend, vary or delete any of the provisions of the Shareholder Rights Plan Agreement. The Company may make amendments to the Shareholder Rights Plan Agreement at any time to correct any clerical or typographical error or, subject to confirmation at the next meeting of Shareholders, make amendments which are required to maintain the validity of the Shareholder Rights Plan Agreement due to changes in any applicable legislation, regulations or rules.

AUDIT COMMITTEE MATTERS

Audit Committee Charter

Vermilion has established an audit committee (the "Audit Committee") to assist the board of directors in carrying out its oversight responsibilities with respect to, among other things, financial reporting, internal controls and the external audit process of the Company. The Audit Committee Terms of Reference are set out in Schedule "C" to this annual information form.

Composition of the Audit Committee

The following table sets forth the name of each current member of the Audit Committee, whether pursuant to applicable securities legislation, such member is considered independent, whether pursuant to applicable securities legislation, such member is considered financially literate and the relevant education and experience of such member.

Name	Independent	Financially Literate	Relevant Education and Experience
W. Kenneth Davidson (Chair)	Yes	Yes	Mr. Davidson holds Bachelor of Science degrees in Mathematics and Business and a Masters in Business Administration degree. Mr. Davidson has obtained significant financial experience and exposure to accounting including internal controls and procedures for financial reporting and complex financial issues as a director, officer or consultant to a number of companies involved in the banking and securities areas of the financial services sector.
Claudio A. Ghersinich	Yes	Yes	Mr. Ghersinich holds a B.Sc. Civil Engineering degree from the University of Manitoba. Mr. Ghersinich has obtained financial experience and exposure to accounting and financial issues in a role as a founder of Vermilion Resources Ltd. in 1994 and as an audit committee member of other public companies.
Joseph F. Killi	Yes	Yes	Mr. Killi holds a Bachelor of Science degree in Biochemistry, a Bachelor of Commerce degree and a Chartered Accountant designation. As a Chartered Accountant, Mr. Killi attained experience in preparing, auditing, analyzing and evaluating financial statements including internal controls and procedures for financial reporting. Mr. Killi has an understanding of the accounting principles used by the Company as well as the implications of those accounting principles on the Company's financial results. Mr. Killi has also obtained significant financial experience and exposure to accounting and financial issues in a number of senior positions with Parkbridge Lifestyle Communities Inc., Realex Properties Corp. and Trizec Corporation and in his role as a director and audit committee member of other public and private companies.
Larry J. Macdonald	Yes	Yes	Mr. Macdonald holds a Bachelor of Science degree in Geology. In 2005, Mr. Macdonald attended a financial literacy course at the University of Toronto's Rotman's School of Management in conjunction with the Institute of Corporate Directors. In addition, Mr. Macdonald has obtained financial experience and exposure to accounting and financial issues in a number of senior officer positions with Point Energy Ltd., Pointwest Energy Inc., Westpoint Energy Inc. and Anderson Exploration Ltd. and as a director, audit committee member and officer of a number of other public and private companies as well as not-for-profit organizations.
William F. Madison	Yes	Yes	Mr. Madison holds a Bachelor of Science in Petroleum Engineering. Mr. Madison has completed the Harvard Program for Management Development. Mr. Madison has obtained financial experience and exposure to accounting and financial issues as the Chairman of Montana Tech Foundation of the University of Montana System and as a senior executive of Marathon Oil Company and as a director, audit committee member and officer of other public and private companies.

External Audit Service Fees

Prior to the commencement of any work, fees for all audit and non-audit services provided by the Company's auditors must be approved by the Audit Committee.

During the years ended December 31, 2011 and 2010, Deloitte & Touche LLP, the auditors of the Company, received the following fees from the Company:

Item	2011	2010
Audit fees (1)	$ 962,898	$ 1,299,697
Audit-related fees (2)	$ 107,500	$ 76,900
Tax fees (3)	$ 21,665	$ 22,239
All other fees (4)	$ 27,342	$ 13,000

Notes:

(1) Audit fees consisted of professional services rendered by Deloitte & Touche LLP for the audit of the Company's financial statements for the years ended December 31, 2011 and 2010, fees for the review of the quarterly financial statements and services provided in connection with statutory and regulatory filings or engagements.

(2) Audit-related fees consist of fees for review services related to non-routine regulatory filings such as short-form prospectus and business acquisition reports. Fees also include services related to review of accounting research in regards to the adoption of IFRS.

(3) Tax fees consist of fees for tax compliance services, tax advice and tax planning.

(4) All other fees consist of fees related to translation services.

MARKET FOR PRICE RANGE AND TRADING VOLUME OF SECURITIES

The outstanding Common Shares of the Company are listed and posted for trading on the TSX under the symbol VET. The following table sets forth the closing price range and trading volume of the Common Shares for the periods indicated:

2011	High	Low	Close	Volume ('000s)
January	$ 47.80	$ 44.60	$ 47.36	3,413
February	$ 52.45	$ 45.87	$ 51.05	4,523
March	$ 51.45	$ 45.64	$ 50.53	4,637
April	$ 51.45	$ 48.77	$ 50.80	3,128
May	$ 51.50	$ 46.28	$ 50.89	3,692
June	$ 51.13	$ 47.56	$ 51.00	3,643
July	$ 51.01	$ 47.51	$ 47.91	2,441
August	$ 48.48	$ 40.38	$ 45.78	5,505
September	$ 46.47	$ 40.30	$ 44.04	3,698
October	$ 49.30	$ 38.62	$ 46.96	3,651
November	$ 50.90	$ 43.92	$ 47.66	7,181
December	$ 48.34	$ 42.88	$ 45.37	4,671

2012	High	Low	Close	Volume ('000s)
January	$ 47.86	$ 44.26	$ 46.00	3,626
February	$ 49.47	$ 44.64	$ 48.65	3,434

CREDIT RATINGS

The following information relating to the Company's credit ratings is provided as it relates to the Company's financing costs, liquidity and operations. Specifically, credit ratings affect the Company's ability to obtain short-term and long-term financing and the cost of such financing. Additionally, the ability of the Company to engage in certain collateralized business activities on a cost effective basis depends on the Company's credit ratings. A reduction in the current rating on the Company's debt by its rating agencies, particularly a downgrade below current ratings, or a negative change in the Company's ratings outlook could adversely affect the Company's cost of financing and its access to sources of liquidity and capital. In addition, changes in credit ratings may affect the Company's ability to, and the associated costs of, (i) entering into ordinary course derivative or hedging transactions and may require the Company to post additional collateral under certain of its contracts, and (ii) entering into and maintaining ordinary course contracts with customers and suppliers on acceptable terms.

The Company's $225 million of Senior Unsecured Notes have a rating of BB (low)/Stable from DBRS Limited ("DBRS") and BB- from Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies (Canada) Corporation ("S&P").

DBRS rates long-term debt instruments by rating categories ranging from a high of "AAA" to a low of "D". All rating categories other than AAA and D also contain subcategories "(high)" and "(low)". The absence of either a "(high)" or "(low)" designation indicates the rating is in the middle of the category. A rating of "BB" is characterized by DBRS to be speculative, non investment-grade credit quality. The capacity for the payment of financial obligations is uncertain and vulnerable to future events. The "BB" category is the fifth highest of the ten available categories.

S&P rates long-term debt instruments by rating categories ranging from a high of "AAA" to a low of "D". The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. An obligation rated "BB" is characterized as less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. The "BB" category is the fifth highest of the ten available categories.

Vermilion Rating

DBRS Limited has provided a corporate credit rating of Vermilion of “BB (low”). A rating of “BB” is characterized by DBRS Limited to be speculative, non investment-grade credit quality. The capacity for the payment of financial obligations is uncertain and vulnerable to future events.

S&P has assigned a corporate credit rating of Vermilion of “BB-” with a stable outlook. An obligor rated “BB” is characterized by S&P as less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the obligor’s inadequate capacity to meet its financial commitments. The plus (+) or minus (-) modifiers indicate the relative standing within the assigned category. In addition, S&P may add a rating outlook of “positive”, “negative” or “stable” which assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years).

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issuer of securities. The credit ratings accorded to the Senior Unsecured Notes and the Company are not recommendations to purchase, hold or sell such securities and are not a comment upon the market price of the Company's securities or their suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant. A revision or withdrawal of a credit rating could have a material adverse effect on the pricing or liquidity of the Senior Unsecured Notes or the Common Shares in any secondary markets. Vermilion does not undertake any obligation to maintain the ratings or to advise holders of the Senior Unsecured Notes or the Common Shares of any change in ratings. Each agency's rating should be evaluated independently of any other agency's rating.

CONFLICTS OF INTEREST

The directors and officers of Vermilion are engaged in and will continue to engage in other activities in the oil and natural gas industry and, as a result of these and other activities, the directors and officers of Vermilion may become subject to conflicts of interest. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the ABCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the ABCA.

As at the date hereof, Vermilion is not aware of any existing or potential material conflicts of interest between Vermilion and a director or officer of Vermilion.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or officer of the Company, nor any other insider of the Company, nor their associates or affiliates has or has had, at any time within the three most recently completed financial years ending December 31, 2011, any material interest, direct or indirect, in any transaction or proposed transaction that has materially affected or would materially affect the Company.

LEGAL PROCEEDINGS

The Company is not party to any significant legal proceedings as of March 12, 2012.

MATERIAL CONTRACTS

The Company has not entered into any material contracts outside its normal course of business.

INTERESTS OF EXPERTS

As at the date hereof, principals of GLJ, the independent engineers for the Company, personally disclosed in certificates of qualification that they neither had nor expect to receive any common shares. The principals of GLJ and their employees (as a group) beneficially own less than one percent of any of the Company's securities. Deloitte & Touche LLP is the auditor of the Company and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta and the standards of the Public Company Accounting Oversight Board (United States) and securities laws and regulations administered by the SEC.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company's common shares is Computershare Trust Company of Canada at its principal offices in Calgary, Alberta and Toronto, Ontario.

RISK FACTORS

The following is a summary of certain risk factors relating to the business of the Company. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this annual information form. Shareholders and potential Shareholders should consider carefully the information contained herein and, in particular, the following risk factors.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of proved and probable reserves and future net revenues to be derived therefrom, including many factors beyond the Company's control. The reserve and future net revenue information set forth in this annual information form represents estimates only. The reserves and estimated future net cash flow from the Company's properties have been independently evaluation by GLJ with an effective date of December 31, 2011. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of crude oil and natural gas, operating costs, well abandonment and salvage values, royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on prices in use at the date the GLJ Report was prepared, and many of these assumptions are subject to change and are beyond the Company's control. Actual production and cash flow derived therefrom will vary from these evaluations, and such variations could be material.

Estimates with respect to reserves that may be developed and produced in the future are often based upon volumetric calculations, probabilistic methods and upon analogy to similar types of reserves, rather than upon actual production history. Estimates based on these methods generally are less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be material, in the estimated reserves.

Reserve estimates may require revision based on actual production experience. Such figures have been determined based upon assumed commodity prices and operating costs.

The present value of estimated future net revenue referred to in this annual information form should not be construed as the fair market value of estimated crude oil and natural gas reserves attributable to the Company's properties. The estimated discounted future revenue from reserves are based upon price and cost estimates which may vary from actual prices and costs and such variance could be material. Actual future net revenue will also be affected by factors such as the amount and timing of actual production, supply and demand for crude oil and natural gas, curtailments or increases in consumption by purchasers and changes in governmental regulations and taxation.

Volatility of Oil and Natural Gas Prices

The Company's operational results and financial condition will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions. Any decline in oil and natural gas prices could have an adverse effect on Vermilion's cash flow which could have the effect of decreasing dividends.

Changes in Legislation

There can be no assurance that income tax laws and government incentive programs relating to the oil and gas industry in Canada and the foreign jurisdictions in which the Company operates, will not be changed in a manner which adversely affects the Company.

The Government of Alberta receives royalties on production of natural resources from lands in which it owns the mineral rights. A change in the royalty regime resulting in an increase in royalties would reduce Vermilion's earnings and could make future capital expenditures or Vermilion's operations uneconomic and could, in the event of a material increase in royalties, make it more difficult to service and repay outstanding debt. Any material increase in royalties would also significantly reduce the value of the Company's associated assets.

Government Regulations

Vermilion's operations are governed by many levels of government, including municipal, state, provincial and federal governments in Canada, France, the Netherlands, Australia and Ireland. Vermilion is subject to laws and regulations regarding health and safety issues, lease interests, taxes and royalties, among others. Failure to comply with the applicable laws can result in significant increases in costs, penalties and even losses of operating licences. The regulatory process involved in each of the countries in which Vermilion operates is not uniform and regulatory regimes vary as to complexity, timeliness of access to, and response from, regulatory bodies and other matters specific to each jurisdiction. If regulatory approvals or permits are delayed or not obtained, there can also be delays or abandonment of projects, decreases in production and increases in costs, and Vermilion may not be able to fully execute its strategy. Governments may also amend or create new legislation and regulatory bodies may also amend regulations or impose additional requirements which could result in increased capital, operating and compliance costs.

Competition

Vermilion actively competes for reserve acquisitions, exploration leases, licences and concessions and skilled industry personnel with a substantial number of other oil and gas companies, some of which have significantly greater financial resources than Vermilion. Vermilion's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

Vermilion's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Operational Matters

The operation of oil and gas wells and facilities involves a number of operating and natural hazards which may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to Vermilion and possible liability to third parties. Vermilion will maintain liability insurance, where available, in amounts consistent with industry standards. Business interruption insurance may also be purchased for selected operations, to the extent that such insurance is commercially viable. Vermilion may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities may impair Vermilion's ability to satisfy its debt obligations or declare dividends.

Continuing production from a property, and to some extent the marketing of production, are largely dependent upon the ability of the operator of the property. To the extent the operator fails to perform these functions properly, revenue may be reduced. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent. Although satisfactory title reviews are generally conducted in accordance with industry standards, such reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat the claim of Vermilion or its subsidiaries to certain properties. Such circumstances could impair Vermilion's ability to satisfy its debt obligations or declare dividends.

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of the properties, and by the operator to Vermilion, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of the properties or the establishment by the operator of reserves for such expenses.

Environmental Concerns

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of Vermilion or its assets. Such legislation may be changed to impose higher standards and potentially more costly obligations on Vermilion. There can be no assurance that the Company will be able to satisfy its actual future environmental and reclamation obligations.

Kyoto Protocol

Australia, Canada, France, Ireland and the Netherlands are signatories to the United Nations Framework Convention on Climate Change and all have ratified the Kyoto Protocol established thereunder. Australia, Canada, France, Ireland and the Netherlands, as Annex B parties to the Kyoto Protocol, and France and Netherlands as a party to the European Union Regional Integration Organization, are required to set legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". Canada has provided formal notice of its intent to withdraw from the Kyoto Protocol.

Vermilion's exploration and production facilities and other operations and activities in Australia, Canada, France, Ireland and the Netherlands will emit a small amount of greenhouse gasses which may subject Vermilion to legislation regulating emissions of greenhouse gases and which may include a requirement to reduce emissions or emissions intensity from Vermilion's operations and facilities. The direct or indirect costs of complying with emissions regulations may adversely affect the business of Vermilion in Australia, Canada, France, Ireland and the Netherlands.

Discretionary Nature of Dividends

The declaration and payment (including the amount thereof) of future cash dividends, if any, is subject to the discretion of the board of directors of the Company and may vary depending on a variety of factors and conditions existing from time to time, including fluctuations in commodity prices, production levels, capital expenditure requirements, debt service requirements, operating costs, royalty burdens, foreign exchange rates and the satisfaction of the liquidity and solvency tests under the ABCA for the declaration and payment of dividends. Depending on these and other factors considered relevant to the declaration and payment of dividends by the board of directors and management of the Company (some or all of which may be beyond the control of the board of directors and management of the Company), the Company may change its dividend policy from time to time. Any reduction of dividends may adversely affect the market price or value of Common Shares.

Debt Service

Vermilion may, from time to time, finance a significant portion of its operations through debt. Amounts paid in respect of interest and principal on debt incurred by Vermilion may impair Vermilion's ability to satisfy its other obligations. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service before payment by Vermilion of its debt obligations. Ultimately, this may result in lower levels of cash flow for the Company.

Lenders may be provided with security over substantially all of the assets of Vermilion and its Subsidiaries. If Vermilion becomes unable to pay its debt service charges or otherwise commits an event of default such as bankruptcy, a lender may be able to foreclose on or sell the assets of Vermilion and/or its Subsidiaries.

Changes in Income Tax Laws

Income tax laws and administrative policies may be changed in a manner which adversely affects the Company and/or Shareholders.

Depletion of Reserves

The Company has certain unique attributes which differentiate it from other oil and gas industry participants. Dividends paid from cash flow generated in respect of properties, absent commodity price increases or cost effective acquisition and development activities, may decline over time in a manner consistent with declining production from typical oil, natural gas and natural gas liquids reserves. Accordingly, absent capital expenditures or acquisitions of additional oil and gas properties, Vermilion's current production levels and reserves will decline.

Vermilion's future oil and natural gas reserves and production, and therefore its cash flows, will be highly dependent on Vermilion's success in exploiting its reserve base and acquiring additional reserves. Without reserve additions through acquisition or development activities, Vermilion's reserves and production will decline over time as reserves are exploited.

Net Asset Value

The net asset value of the assets of the Company from time to time will vary dependent upon a number of factors beyond the control of management, including oil and gas prices. The trading prices of the common shares from time to time is also determined by a number of factors which are beyond the control of management and such trading prices may be greater than the net asset value of the Company's assets.

Volatility of Market Price of Common Shares

The market price of the Common Shares may be volatile. The volatility may affect the ability of Shareholders to sell the Common Shares at an advantageous price. Market price fluctuations in the Common Shares may be due to the Company's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Corporation or its competitors, along with a variety of additional factors, including, without limitation, those set forth under "Forward-Looking Statements" in this annual information form. In addition, the market price for securities in the stock markets, including the TSX, has experienced significant price and trading fluctuations in recent years. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market price of the Common Shares.

Variations in Interest Rates and Foreign Exchange Rates

An increase in interest rates could result in a significant increase in the amount the Company pays to service debt, potentially impacting dividends to shareholders.

In addition, an increase in the exchange rate for the Canadian dollar versus the U.S. dollar would result in the receipt by the Company of fewer Canadian dollars for its production which may affect future dividends. The Company monitors and, when appropriate, uses derivative financial instruments to manage its exposure to currency exchange rate risks. The increase in the exchange rate for the Canadian dollar and future Canadian/United States exchange rates may impact future dividends and the future value of the Company's reserves as determined by independent evaluators.

Increase in Operating Costs or Decline in Production Level

An increase in operating costs or a decline in Vermilion's production level could have an adverse effect on Vermilion's cash flow and, therefore, could reduce dividends to Shareholders and affect the market price of the common shares. The level of production may decline at rates greater than anticipated due to unforeseen circumstances, many of which are beyond Vermilion's control. A significant decline in production could result in materially lower revenues and cash flow and, therefore, could reduce dividends to Shareholders and affect the market price of the common shares.

Acquisition Assumptions

When making acquisitions, Vermilion estimates future performance of the assets to be acquired that may prove to be inaccurate.

Acquired assets are subject to inherent risks associated with predicting the future performance of those assets. Vermilion makes certain estimates and assumptions respecting the economic potential of the assets it acquires which may not be realized over time. As such, assets acquired may not possess the value Vermilion attributed to them, which could adversely impact cash flow.

Failure to Realize Anticipated Benefits of Prior Acquisitions

Vermilion has completed several acquisitions since December 31, 2009 that were completed to strengthen its position in the oil and natural gas industry and to create the opportunity to realize certain benefits, including, among other things, potential cost savings. In order to achieve the benefits of these and future acquisitions, Vermilion will be dependent upon its ability to successfully consolidate functions and integrate operations, procedures and personnel in a timely and efficient manner and to realize the anticipated growth opportunities and synergies from combining the acquired assets and operations with those of the Company. The integration of acquired assets and operations requires the dedication of management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters during the process. The integration process may result in the disruption of ongoing business and customer relationships that may adversely affect Vermilion's ability to achieve the anticipated benefits of such prior acquisitions.

Additional Financing

Vermilion's credit facility and any replacement credit facility may not provide sufficient liquidity. The amounts available under Vermilion's credit facility may not be sufficient for future operations, or Vermilion may not be able to obtain additional financing on attractive economic terms, if at all. Any failure to obtain financing may have a material adverse effect on Vermilion's business, and dividends to Shareholders may be reduced, suspended or eliminated.

To the extent that external sources of capital, including the issuance of additional common shares, become limited or unavailable, Vermilion's ability to make the necessary capital investments to maintain or expand its oil and natural gas reserves will be impaired. To the extent the Company is required to use cash flow to finance capital expenditures or property acquisitions, the level of cash available that may be declared payable as dividends will be reduced.

Potential Conflicts of Interest

Circumstances may arise where members of the board of directors or officers of Vermilion are directors or officers of corporations which are in competition to the interests of Vermilion. No assurances can be given that opportunities identified by such persons will be provided to Vermilion.

GAAP Adjustments

GAAP requires that management apply certain accounting policies and make certain estimates and assumptions which affect reported amounts in Vermilion's consolidated financial statements. The accounting policies may result in non-cash charges to net income and write-downs of net assets in the financial statements. Such non-cash charges and write-downs may be viewed unfavourably by the market and may result in an inability to borrow funds and/or may result in a decline in the Common Share price.

Lower oil and gas prices increase the risk of write-downs of Vermilion's oil and gas property investments. Under IFRS, PNG depletion units are aggregated into groups known as CGU's for impairment testing. CGUs are reviewed for indicators that the carrying value of the CGU may exceed its recoverable amount. If an indication of impairment exists, the CGU's recoverable amount is then estimated. A CGU's recoverable amount is defined as the higher of the fair value less costs to sell and its value in use. If the carrying amount exceeds its recoverable amount an impairment loss is recorded to net earnings in the period to reduce the carrying value of the CGU to its recoverable amount. While these impairment losses would not affect cash flow, the charge to earnings could be viewed unfavourably in the market.

Market Accessibility

A decline in Vermilion's ability to market oil and natural gas production could have a material adverse effect on its production levels or on the price that Vermilion receives for production which, in turn, could reduce Dividends to its Shareholders and the trading price of the common shares.

Vermilion's business depends in part upon the availability, proximity and capacity of natural gas gathering systems, pipelines and processing facilities. Canadian federal and provincial, as well as United States federal and state, regulation of oil and gas production, processing and transportation, tax and energy policies, general economic conditions, and changes in supply and demand could adversely affect Vermilion's ability to produce and market oil and natural gas. If market factors change and inhibit the marketing of Vermilion production, overall production or realized prices may decline, which could reduce dividends to Shareholders.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com. Additional information related to the remuneration and indebtedness of the directors and officers of the Company, and the principal holders of Common Shares and Rights to purchase Common Shares and securities authorized for issuance under the Company's equity compensation plans, where applicable, are contained in the information circular of the Company in respect of its most recent annual meeting of Shareholders involving the election of directors. Additional financial information is provided in the Company's audited financial statements and management's discussion and analysis for the year ended December 31, 2011.

SCHEDULE "A"
REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR (FORM 51-101F2)

To the Board of Directors of Vermilion Energy Inc. (the "Company"):

1. We have evaluated the Company's reserves data as at December 31, 2011. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2011, estimated using forecast prices and costs.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

   We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2011, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate - M$)			
			Audited	Evaluated	Reviewed	Total
GLJ Petroleum Consultants	February 3, 2012	Australia	-	812,688	-	812,688
GLJ Petroleum Consultants	February 3, 2012	Canada	-	941,711	-	941,711
GLJ Petroleum Consultants	February 3, 2012	France	-	1,171,994	-	1,171,994
GLJ Petroleum Consultants	February 3, 2012	Ireland	-	321,762	-	321,762
GLJ Petroleum Consultants	February 3, 2012	Netherlands	-	315,007	-	315,007
TOTAL				**3,563,163**		**3,563,163**

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied.

6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

EXECUTED as to our reports referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, February 3, 2012

"*Jodi L. Anhorn*"
Jodi L. Anhorn, M.Sc., P.Eng.
Executive Vice President & COO

GLJ Petroleum Consultants

SCHEDULE "B"
REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE (FORM 51-101F3)

Terms to which a meaning is ascribed in National Instrument 51-101 have the same meaning herein.

Management of Vermilion Energy Inc. (the "Company") are responsible for the preparation and disclosure, or arranging for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2011, estimated using forecast prices and costs.

Independent qualified reserves evaluators have evaluated the Company's reserves data. The report of the independent qualified reserves evaluators is presented in Schedule A to the Annual Information Form of the Company for the year ended December 31, 2011.

The Independent Reserves Committee of the Board of Directors of the Company has:

(a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluators;

(b) met with the independent qualified reserves evaluators to determine whether any restrictions affected the ability of the independent qualified reserves evaluators to report without reservation; and

(c) reviewed the reserves data with Management and the independent qualified reserves evaluators.

The Independent Reserves Committee of the Board of Directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with Management. The Board of Directors has, on the recommendation of the Audit and Independent Reserves Committees, approved:

(a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;

(b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluators on the reserves data; and

(c) the content and filing of this report.

Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

"Lorenzo Donadeo"
Lorenzo Donadeo, President and Chief Executive Officer

"Curtis Hicks"
Curtis W. Hicks, Executive Vice President and Chief Financial Officer

"Larry J. Macdonald"
Larry J. Macdonald, Director and Chairman of the Board

"Claudio A. Ghersinich"
Claudio A. Ghersinich, Director

SCHEDULE "C"
TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

I. PURPOSE

The primary function of the Audit Committee (the "Committee") is to assist the Board in fulfilling its oversight responsibilities by reviewing:

A. The financial information that will be provided to the Shareholders and others;

B. The systems of internal controls, management and the Board of Directors have established;

C. All audit processes;

Primary responsibility for the financial reporting, information systems, risk management and internal controls of Vermilion Energy Inc. ("Vermilion") is vested in management and is overseen by the Board.

II. COMPOSITION AND OPERATIONS

A. The Committee shall be composed of not fewer than three directors and not more than five directors, all of whom are independent [1] directors of Vermilion.

B. All Committee members shall be "financially literate"[2] and at least one member shall have "accounting or related financial expertise". The Committee may include a member who is not financially literate, provided he or she attains this status within a reasonable period of time following his or her appointment and providing the Board has determined that including such member will not materially adversely affect the ability of the Committee to act independently.

C. The Committee shall operate in a manner that is consistent with the Committee Guidelines outlined in Tab 8 of the Board Manual.

D. Vermilion's auditors shall be advised of the names of the Committee members and will receive notice of and be invited to attend meetings of the Committee, and to be heard at those meetings on matters relating to the Auditor's duties.

E. The Committee has the authority to communicate with the external auditors as it deems appropriate to consider any matter that the Committee or auditors determine should be brought to the attention of the Board or Shareholders.

F. The Committee shall meet at least four times each year.

III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

A. Financial Statements and Other Financial Information

The Committee will review and recommend for approval to the Board financial information that will be made publicly available. This includes:

i) Review and recommend approval of Vermilion's annual financial statements, MD&A and press release and report to the Board of Directors before the statements are approved by the Board of Directors;
ii) Review and recommend approve for release Vermilion's quarterly financial statements, MD&A and press release;
iii) Satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from Vermilion's financial statements, other than the public disclosure referred to in items (i) and (ii) above, and periodically assess the adequacy of those procedures; and
iv) Review the Annual Information Form and any Prospectus/Private Placement Memorandums.

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1 Independence requirements, including those specifically for Audit Committee members, are described in the Appendix to Tab 6, Board Operating Guidelines.

2 The Board has adopted the NI 52-110 definition of "financial literacy", which is an individual who is financially literate if he or she has the ability to read and
understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and
complexity of the issues that can reasonably be expected to be raised by the issuer's financial statements.

SCHEDULE "C"
TERMS OF REFERENCE FOR THE AUDIT COMMITTEE (CONTINUED)

Review and discuss:

v) The appropriateness of accounting policies and financial reporting practices used by Vermilion;
vi) Any significant proposed changes in financial reporting and accounting policies and practices to be adopted by Vermilion;
vii) Any new or pending developments in accounting and reporting standards that may affect Vermilion;
viii) With management, the external auditor and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters may be, or have been, disclosed in the financial statements; and
ix) Accounting, tax and financial aspects of the operations of the Corporation as the Committee considers appropriate.

B. Risk Management, Internal Control and Information Systems

The Audit Committee will review and obtain reasonable assurance that the risk management, internal control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

i) Review Vermilion's risk management controls and policies;
ii) Obtain reasonable assurance that the information systems are reliable and the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management, the internal auditor and external auditor; and
iii) Review management steps to implement and maintain appropriate internal control procedures including a review of policies.

C. External Audit

The External Auditor is required to report directly to the Committee, which will review the planning and results of external audit activities and the ongoing relationship with the external auditor. This includes:
i) Review and recommend to the Board, for Shareholder approval, engagement and compensation of the external auditor;
ii) Review the annual external audit plan, including but not limited to the following:
    a) engagement letter;
    b) objectives and scope of the external audit work;
    c) procedures for quarterly review of financial statements;
    d) materiality limit;
    e) areas of audit risk;
    f) staffing;
    g) timetable; and
    h) proposed fees.
iii) Meet with the external auditor to discuss Vermilion's quarterly and annual financial statements and the auditor's report including the appropriateness of accounting policies and underlying estimates;
iv) Maintain oversight the External Auditor's work and advise the Board, including but not limited to:
    a) The resolution of any disagreements between management and the External Auditor regarding financial reporting;
    b) Any significant accounting or financial reporting issue;
    c) The auditors' evaluation of Vermilion's system of internal controls, procedures and documentation;
    d) The post audit or management letter containing any findings or recommendation of the external auditor, including management's response thereto and the subsequent follow-up to any identified internal control weaknesses;
    e) Any other matters the external auditor brings to the Committee's attention; and
    f) Assess the performance and consider the annual appointment of external auditors for recommendation to the Board ensuring that such auditors are participants in good standing pursuant to applicable regulatory laws.
v) Review the auditor's report on all material subsidiaries; and
vi) Review and discuss with the external auditors all significant relationships that the external auditors and their affiliates have with Vermilion and its affiliates in order to determine the external auditors' independence, including, without limitation:
    a) Requesting, receiving and reviewing, on a periodic basis, a formal written statement from the external auditors delineating all relationships that may reasonably be thought to bear on the independence of the external auditors with respect to Vermilion;
    b) Discussing with the external auditors any disclosed relationships or services that the external auditors believe may affect the objectivity and independence of the external auditors; and
    c) Recommending that the Board take appropriate action in response to the external auditors' report to satisfy itself of the external auditors' independence.
vii) Review and pre-approve any non-audit services to be provided by the external auditor's firm or its affiliates (including estimated fees), and consider the impact on the independence of the external audit; and
viii) Meet periodically, and at least annually, with the external auditor without management present.

SCHEDULE "C"
TERMS OF REFERENCE FOR THE AUDIT COMMITTEE (CONTINUED)

D. Compliance

The Committee shall:

i) Ensure that the External Auditor's fees are disclosed by category in the Annual Information Form in compliance with regulatory requirements;
ii) Disclose any specific policies or procedures has adopted for pre-approving non-audit services by the External Auditor including affirmation that they meet regulatory requirements;
iii) Assist the Governance and Human Resources Committee with preparing Vermilion's governance disclosure by ensuring it has current and accurate information on:
   a) The independence of each Committee member relative to regulatory requirements for audit committees;
   b) The state of financial literacy of each Committee member, including the name of any member(s) currently in the process of acquiring financial literacy and when they are expected to attain this status; and
   c) The education and experience of each Committee member relevant to his or her responsibilities as Committee member.
iv) Disclose if Vermilion has relied upon any exemptions to the requirements for Audit Committees under regulatory requirements.

E. Other

The Committee shall:

i) Establish and periodically review implementation of procedures for:
   a) The receipt, retention and treatment of complaints received by Vermilion regarding accounting, internal accounting controls, or auditing matters; and
   b) The confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
ii) Review and approve Vermilion hiring policies regarding partners, employees and former partners and employees of the present and former External Auditor;
iii) Review insurance coverage of significant business risks and uncertainties;
iv) Review material litigation and its impact on financial reporting;
v) Review policies and procedures for the review and approval of officers' expenses and perquisites; and
vi) Review the policies and practices concerning the expenses and perquisites of the Chairman, including the use of the assets of Vermilion;
vii) Review with external auditors any corporate transactions in which directors or officers of Vermilion have a personal interest; and
viii) Review the terms of reference for the Committee annually and make recommendations to the Board as required.

IV. ACCOUNTABILITY

A. The Committee Chair has the responsibility to make periodic reports to the Board, as requested, on financial matters relative to Vermilion.

B. The Committee shall report its discussions to the Board by maintaining minutes of its meetings and providing an oral report at the next Board meeting.

VERMILION ENERGY

Annual Information Form

3500, 520 - 3rd Avenue S.W.
Calgary, Alberta T2P 0R3
403.269.4884 Telephone | 403.476.8100 Facsimile | 1.866.895.8101 Investor Relations Toll Free
www.vermilionenergy.com | investor_relations@vermilionenergy.com



EXHIBIT 99.2

VERMILION ENERGY INC.
2011 MANAGEMENT'S DISCUSSION AND ANALYSIS



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

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 in Canada and internationally;
- the ability of Vermilion to market oil and natural gas successfully to current and new customers;
- the timing and costs of pipeline and storage facility construction and expansion and the ability to secure adequate product transportation;
- the timely receipt of required regulatory approvals;
- the ability of Vermilion to obtain financing on acceptable terms;
- foreign currency exchange rates and interest rates;
- future oil and natural gas prices; and
- Management's expectations relating to the timing and results of development activities.

Although Vermilion believes that the expectations reflected in such forward looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because Vermilion can give no assurance that such expectations will prove to be correct. Forward looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Vermilion and described in the forward looking statements or information. These risks and uncertainties include but are not limited to:

- the ability of management to execute its business plan;
- the risks of the oil and gas industry, both domestically and internationally, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;
- risks and uncertainties involving geology of oil and natural gas deposits;
- risks inherent in Vermilion's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- Vermilion's ability to enter into or renew leases;
- fluctuations in oil and natural gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;
- the ability of Vermilion to add production and reserves through development and exploration activities;
- general economic and business conditions;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments;
- risks associated with existing and potential future law suits and regulatory actions against Vermilion; and
- other risks and uncertainties described elsewhere in this document or in Vermilion's other filings with Canadian securities regulatory authorities.

The forward looking statements or information contained in this document are made as of the date hereof and Vermilion undertakes no obligation to update publicly or revise any forward looking statements or information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws.

Natural gas volumes have been converted on the basis of six thousand cubic feet of natural gas to one barrel of oil equivalent. Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A"), dated March 1, 2012, of Vermilion Energy Inc.'s ("Vermilion" or the "Company") operating and financial results as at and for the three months and year ended December 31, 2011 compared with the corresponding periods in the prior year. This discussion should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011 and 2010, together with accompanying notes. Additional information relating to Vermilion, including its Annual Information Form, is available on SEDAR at www.sedar.com or on Vermilion's website at www.vermilionenergy.com.

The audited consolidated financial statements for the year ended December 31, 2011 and comparative information have been prepared in Canadian dollars, except where another currency has been indicated, and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

CORPORATE CONVERSION

On September 1, 2010, Vermilion Energy Trust (the "Trust") completed the conversion from an income trust to a corporation pursuant to an arrangement under the *Business Corporations Act* (Alberta). As a result of the conversion, units of the Trust were converted to common shares of Vermilion on a one-for-one basis and holders of exchangeable shares in Vermilion Resources Ltd. received 1.89344 common shares for each exchangeable share held. There were no exchangeable shares outstanding following the conversion.

Vermilion retained the same board of directors and management team which continues to be led by Lorenzo Donadeo as President and Chief Executive Officer. There were no changes in Vermilion's underlying operations associated with the conversion. The consolidated financial statements and related financial information have been prepared on a continuity of interest basis, which recognizes Vermilion as the successor entity and accordingly all comparative information presented for the pre-conversion period is that of the Trust. **For the convenience of the reader, when discussing prior periods this MD&A refers to shares, shareholders and dividends although for the pre-conversion period such items were units, unitholders and distributions, respectively.**

NON-GAAP MEASURES

This report includes non-GAAP measures as further described herein. These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities.

"Fund flows from operations" represents cash flows from operating activities before changes in non-cash operating working capital and asset retirement obligations settled. Management considers fund flows from operations and per share calculations of fund flows from operations (see discussion relating to per share calculations below) to be key measures as they demonstrate Vermilion's ability to generate the cash necessary to pay dividends, repay debt, fund asset retirement obligations and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, fund flows from operations provides a useful measure of Vermilion's ability to generate cash that is not subject to short-term movements in non-cash operating working capital. The most directly comparable GAAP measure is cash flows from operating activities.

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

	Three Months Ended			% change		Year Ended		% change
($M)	Dec 31, 2011	Sept 30, 2011	Dec 31, 2010	Q4/11 vs. Q3/11	Q4/11 vs. Q4/10	Dec 31, 2011	Dec 31, 2010	2011 vs. 2010
Cash flows from operating activities	**158,639**	99,906	127,191			**447,092**	421,282	
Changes in non-cash operating working capital	**(29,315)**	12,194	(34,139)			**4,173**	(70,614)	
Asset retirement obligations settled	**7,559**	4,269	5,110			**23,071**	6,861	
Fund flows from operations	**136,883**	116,369	98,162	18%	39%	**474,336**	357,529	33%

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

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

	As At	
($M)	**Dec 31, 2011**	**Dec 31, 2010**
Long-term debt	**373,436**	302,558
Current liabilities [1]	**491,184**	340,934
Current assets	**(435,659)**	(340,197)
Net debt	**428,961**	303,295

[1] As at December 31, 2011, current liabilities includes the amount due pursuant to acquisition relating to the Corrib project.

"Cash dividends per share" represents cash dividends declared per share by Vermilion during the relevant periods.

"Net dividends" is calculated as dividends declared for a given period less proceeds received by Vermilion pursuant to the dividend reinvestment plan. Dividends both before and after the dividend reinvestment plan are reviewed by management and assessed as a percentage of fund flows from operations to analyze how much of the cash that is generated by Vermilion is being used to fund dividends. Dividends declared is the most directly comparable GAAP measure to net dividends. Dividends declared as presented in Vermilion's consolidated statement of changes in shareholders' equity is reconciled to net dividends as follows:

	Three Months Ended			Year Ended	
($M)	**Dec 31, 2011**	**Sept 30, 2011**	**Dec 31, 2010**	**Dec 31, 2011**	**Dec 31, 2010**
Dividends declared	**53,871**	51,612	50,664	**207,846**	189,744
Issuance of shares pursuant to the dividend reinvestment plan	**(16,802)**	(15,219)	(13,467)	**(59,081)**	(40,824)
Net dividends	**37,069**	36,393	37,197	**148,765**	148,920

"Total net dividends, capital expenditures and asset retirement obligations settled" is calculated as net dividends as determined above plus the following amounts for the relevant periods from Vermilion's consolidated statements of cash flows: "Drilling and development", "Exploration and evaluation", "Withdrawals from reclamation fund" and "Asset retirement obligations settled".

Total net dividends, capital expenditures and asset retirement obligations settled (excluding the Corrib project) is the above amount excluding capital expenditures and asset retirement obligations settled relating to Vermilion's share of the 18.5% non-operated interest in the offshore Corrib gas field in Ireland.

These measures are reviewed by management and assessed as a percentage of fund flows from operations to analyze the amount of cash that is generated by Vermilion that is available to repay debt and fund potential acquisitions. This measure is the sum of the following GAAP measures:

	Three Months Ended			Year Ended	
($M)	**Dec 31, 2011**	**Sept 30, 2011**	**Dec 31, 2010**	**Dec 31, 2011**	**Dec 31, 2010**
Dividends declared	**53,871**	51,612	50,664	**207,846**	189,744
Issuance of shares pursuant to the dividend reinvestment plan	**(16,802)**	(15,219)	(13,467)	**(59,081)**	(40,824)
Drilling and development	**129,478**	89,332	103,592	**411,227**	414,152
Exploration and evaluation	**22,773**	45,449	1,843	**79,553**	18,030
Withdrawals from reclamation fund	**-**	-	-	**-**	(812)
Asset retirement obligations settled	**7,559**	4,269	5,110	**23,071**	6,861
Total net dividends, capital expenditures and asset retirement obligations settled	**196,879**	175,443	147,742	**662,616**	587,151

	Three Months Ended			Year Ended	
($M)	**Dec 31, 2011**	**Sept 30, 2011**	**Dec 31, 2010**	**Dec 31, 2011**	**Dec 31, 2010**
Total net dividends, capital expenditures and asset retirement obligations settled	**196,879**	175,443	147,742	**662,616**	587,151
Less: Capital expenditures and asset retirement obligations settled related to the Corrib project	**(13,869)**	(21,686)	(14,613)	**(68,260)**	(78,498)
Total net dividends, capital expenditures and asset retirement obligations settled (excluding the Corrib project)	**183,010**	153,757	133,129	**594,356**	508,653

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

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

"Adjusted basic weighted average shares outstanding" is different from the most directly comparable GAAP figure in that in the comparative period they included amounts relating to outstanding exchangeable shares at the period end exchange ratio. As the exchangeable shares were convertible into shares of Vermilion, management believes that their inclusion in the comparative period calculation of basic rather than only in diluted per share statistics provides more meaningful information.

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

These GAAP measures are reconciled to the relevant non-GAAP measures below:

	As At	
('000s of shares)	**Dec 31, 2011**	**Dec 31, 2010**
Shares outstanding	**96,430**	88,998
Potential shares issuable pursuant to equity based compensation plans	**2,348**	2,146
Diluted shares outstanding	**98,778**	91,144

	Three Months Ended			Year Ended	
('000s of shares)	**Dec 31, 2011**	**Sept 30, 2011**	**Dec 31, 2010**	**Dec 31, 2011**	**Dec 31, 2010**
Basic weighted average shares outstanding	**93,616**	90,492	88,832	**90,878**	83,155
Shares issuable pursuant to exchangeable shares	**-**	-	-	**-**	5,058
Adjusted basic weighted average shares outstanding	**93,616**	90,492	88,832	**90,878**	88,213

	Three Months Ended			Year Ended	
('000s of shares)	**Dec 31, 2011**	**Sept 30, 2011**	**Dec 31, 2010**	**Dec 31, 2011**	**Dec 31, 2010**
Diluted weighted average shares outstanding	**93,616**	91,710	88,832	**92,272**	83,155
Shares issuable pursuant to exchangeable shares, if anti-dilutive	**-**	-	-	**-**	5,058
Shares issuable on equity based compensation plans, if anti-dilutive	**1,466**	-	1,441	**-**	1,342
Adjusted diluted weighted average shares outstanding	**95,082**	91,710	90,273	**92,272**	89,555

2011 REVIEW AND 2012 GUIDANCE

The following table summarizes Vermilion's 2011 actual results as compared to guidance and Vermilion's 2012 guidance:

	Date	**Capital Expenditures ($MM)**	**Average Production (boe/d)**
2011 Guidance	November 5, 2010	460	35,000 to 36,000
2011 Actual	December 31, 2011	491	35,202
2012 Guidance	December 21, 2011	375	37,000 to 38,000

Capital expenditures in 2011 were $491 million, an increase of approximately $31 million relative to Vermilion's original guidance of $460 million provided on November 5, 2010. The increase in capital expenditures was the result of incremental outlays related to the purchase of land in Canada and an acceleration of Cardium related development activities, partially offset by lower than anticipated expenditures in each of Vermilion's operating regions outside of Canada. Vermilion achieved production volumes in-line with the Company's original guidance of 35,000 boe/d to 36,000 boe/d.

OPERATIONAL ACTIVITIES

Canada

In Canada, Vermilion participated in the drilling of 88 (51.3 net) wells during 2011, resulting in eight (2.4 net) gas wells and 80 (48.9 net) Cardium oil wells. These wells included 42 (37.5 net) operated Cardium oil wells and 38 (11.4 net) non-operated Cardium oil wells. At year end, 49 (43.5 net) operated Cardium wells were on production and 41 (13.6 net) non-operated wells were on production. While drilling activity is expected to remain steady through the first half of 2012, some completions and tie-ins will be deferred until the summer months when spring break-up is complete.

France

In France, Vermilion drilled the Cazaux 91-D well in 2011, an exploratory well designed to appraise an undeveloped fault block. Vermilion also completed an active workover and recompletion program including 20 workovers across the Paris and Aquitaine basins and two optimizations in the Aquitaine basin.

Netherlands

In the Netherlands, Vermilion drilled four (2.3 net) new exploration wells including the Nieuwehorne-1, Langezwaag-1, Wommels-1 and De Kom-1. Vermilion continues to test and evaluate the results of this drilling campaign and currently anticipates bringing on related production volumes in late 2012 or early 2013. The Company also completed related facilities construction and unitization negotiations for the 2009 Vinkega-1 discovery well bringing on production from the Vlieland zone in May of 2011 and subsequently from the Rotliegend zone in mid-December of 2011. The final phases of permitting and facilities construction were also underway for the fourth and final well of the 2009 drilling campaign, De Hoeve-1, and the Company currently anticipates bringing the well on production by mid-2012. The balance of 2011 activity involved facility maintenance, permitting and site construction related activities for the 2012 and 2013 drilling campaigns. Vermilion plans to commence a two (1.3 net) well development program in late 2012.

Australia

Vermilion completed three workovers in the second quarter of 2011 resulting in modest incremental volumes upon their completion. While the economics of the workover program were strong, the incremental volumes were not as expected resulting in the deferral of future workover programs until further reservoir studies are completed.

PRODUCTION

	Three Months Ended			% change		Year Ended		% change
	Dec 31, 2011	**Sept 30, 2011**	**Dec 31, 2010**	**Q4/11 vs. Q3/11**	**Q4/11 vs. Q4/10**	**Dec 31, 2011**	**Dec 31, 2010**	**2011 vs. 2010**
Canada								
Crude oil & NGLs (bbls/d)	**7,837**	5,831	4,859	34%	61%	**5,998**	4,205	43%
Natural gas (mmcf/d)	**43.96**	42.94	42.33	2%	4%	**43.38**	43.91	(1)%
Total (boe/d)	**15,163**	12,987	11,913	17%	27%	**13,227**	11,524	15%
% of consolidated	**41%**	38%	34%			**38%**	36%	
France								
Crude oil & NGLs (bbls/d)	**7,819**	7,946	8,539	(2)%	(8)%	**8,110**	8,347	(3)%
Natural gas (mmcf/d)	**0.94**	0.97	1.10	(3)%	(15)%	**0.95**	0.92	3%
Total (boe/d)	**7,976**	8,108	8,723	(2)%	(9)%	**8,269**	8,501	(3)%
% of consolidated	**22%**	23%	25%			**23%**	26%	
Netherlands								
NGLs (bbls/d)	**66**	64	26	3%	154%	**58**	35	66%
Natural gas (mmcf/d)	**34.58**	33.15	30.47	4%	13%	**32.88**	28.31	16%
Total (boe/d)	**5,829**	5,589	5,105	4%	14%	**5,538**	4,753	17%
% of consolidated	**16%**	16%	14%			**16%**	15%	
Australia								
Crude oil (bbls/d)	**7,686**	7,992	9,561	(4)%	(20)%	**8,168**	7,354	11%
% of consolidated	**21%**	23%	27%			**23%**	23%	
Consolidated								
Crude oil & NGLs (bbls/d)	**23,408**	21,833	22,985	7%	2%	**22,334**	19,941	12%
% of consolidated	**64%**	63%	65%			**63%**	62%	
Natural gas (mmcf/d)	**79.48**	77.06	73.90	3%	8%	**77.21**	73.14	6%
% of consolidated	**36%**	37%	35%			**37%**	38%	
Total (boe/d)	**36,654**	34,676	35,302	6%	4%	**35,202**	32,132	10%

(boe/d)	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q1 2011**	**Q4 2010**	**Q3 2010**	**Q2 2010**	**Q1 2010**
Canada	**15,163**	12,987	12,426	12,304	11,913	11,233	11,434	11,514
France	**7,976**	8,108	8,419	8,582	8,723	8,741	8,472	8,057
Netherlands	**5,829**	5,589	5,682	5,039	5,105	5,099	5,269	3,519
Australia	**7,686**	7,992	8,692	8,309	9,561	6,225	6,522	7,094
Total	**36,654**	34,676	35,219	34,234	35,302	31,298	31,697	30,184

Average total production in Canada of 13,227 boe/d during 2011 represented an increase of 15% compared to 11,524 boe/d in 2010, as growth in Cardium related production volumes more than offset natural declines associated with Vermilion's Canadian conventional natural gas production. Fourth quarter of 2011 production of 15,163 boe/d was 17% higher than production levels in the third quarter of 2011 and more than 27% higher than in the fourth quarter of 2010, illustrating the significant growth in Vermilion's Cardium related production volumes in the second half of 2011. Vermilion also achieved noticeable growth in oil and NGL production of 34% and 61%, as compared to the third quarter of 2011 and fourth quarter of 2010, respectively.

Production in France averaged 8,269 boe/d in 2011, a 3% decline from 2010 production volumes of 8,501 boe/d. This modest decline was illustrative of the effectiveness of Vermilion's annual workover and recompletion activities at offsetting natural declines in production.

Average production volumes in the Netherlands increased by 785 boe/d in 2011 to 5,538 boe/d, a gain of more than 17%, largely attributable to the tie-in of production volumes from the Vlieland formation of the Vinkega-1 discovery well in May of 2011. These production volumes were later replaced by production from the Rotliegend formation, also from the Vinkega-1 discovery well, following completion of unitization negotiations in mid-December of 2011. Looking forward, Netherlands production is expected to see continued production increases from new drilling, although the timing of such increases is less predictable due to the variability in the length of time it takes to complete the production permitting process for individual prospects.

Australia production averaged 8,168 boe/d in 2011, compared to 7,354 boe/d in 2010 due largely to the strong performance of three wells drilled and brought on production in November 2010. Vermilion also added modest but incremental volumes through its 2011 workover program. Vermilion expects to sustain annual average production at between 6,000 boe/d and 8,000 boe/d over the next few years with a two to three well drilling campaign every other year. The next planned drilling campaign is scheduled for the fall of 2012.

FINANCIAL REVIEW

During the three months ended December 31, 2011, Vermilion generated fund flows from operations of $136.9 million compared to $116.4 million for the three months ended September 30, 2011 and $98.2 for the three months ended December 31, 2010. The increase in fund flows from operations for the fourth quarter of 2011 versus both the three months ended September 30, 2011 and December 31, 2010 were the result of overall higher commodity prices and generally increased average production volumes in Canada and the Netherlands.

During the year ended December 31, 2011, Vermilion generated fund flows from operations of $474.3 million compared to $357.5 million in 2010. The year over year increase in fund flows from operations of $116.8 million resulted primarily from overall higher commodity prices, including highly favourable variances in the price of Dated Brent crude, and generally increased average production volumes, including an increase in Dated Brent priced oil production in Australia and gas production in the Netherlands, the pricing of which is highly correlated to Dated Brent.

Vermilion's net debt was $429.0 million at December 31, 2011 (December 31, 2010 - $303.3 million) representing approximately 90% of fund flows from operations. The increase in net debt was the result of the change in the classification of the amount due pursuant to acquisition, which relates to Vermilion's acquisition of an 18.5% non-operated interest in the Corrib gas field in 2009, and the increase in long-term debt. On December 31, 2011, the amount due pursuant to acquisition ($127.1 million) was reclassified to current liabilities as the amount is payable at the end of 2012. Long-term debt increased to $373.4 million at December 31, 2011 (December 31, 2010 - $302.6 million). The increase in long-term debt was used to fund Vermilion's capital expenditures, including continued development of the Cardium resource play in Canada and the acquisition of additional undeveloped Cardium acreage. The impact of this increase in capital expenditures on net debt was partially offset by Vermilion's November 2011 equity issuance for net proceeds of $252.0 million.

For the year ended December 31, 2011, total net dividends, capital expenditures and asset retirement obligations settled (excluding the Corrib project) as a percentage of fund flows from operations were 125% (December 31, 2010 - 142%). The year over year changes in this ratio relate primarily to improved fund flows from operations partially offset by increases to capital expenditures and asset retirement obligations settled.

COMMODITY PRICES

	Three Months Ended			% change		Year Ended		% change
	Dec 31, 2011	**Sept 30, 2011**	**Dec 31, 2010**	**Q4/11 vs. Q3/11**	**Q4/11 vs. Q4/10**	**Dec 31, 2011**	**Dec 31, 2010**	**2011 vs. 2010**
Average reference prices								
WTI (US $/bbl)	**94.06**	89.76	85.17	5%	10%	**95.12**	79.53	20%
Edmonton sweet index (US $/bbl)	**95.49**	93.97	79.47	2%	20%	**96.44**	75.54	28%
Dated Brent (US $/bbl)	**109.31**	113.46	86.48	(4)%	26%	**111.27**	79.47	40%
AECO ($/mcf)	**3.17**	3.66	3.62	(13)%	(12)%	**3.62**	4.00	(10)%
Netherlands oil-linked gas price ($/mcf)	**10.57**	9.78	8.39	8%	26%	**9.69**	7.50	29%
Netherlands oil-linked gas price (€/mcf)	**7.67**	7.07	6.10	8%	26%	**7.04**	5.48	28%
Average realized prices ($/boe)								
Canada	**59.03**	51.81	45.26	14%	30%	**53.82**	44.04	22%
France	**112.71**	108.40	85.10	4%	32%	**107.38**	80.26	34%
Netherlands	**62.95**	58.11	48.26	8%	30%	**57.51**	42.53	35%
Australia	**108.00**	102.98	86.23	5%	25%	**111.16**	81.86	36%
Consolidated	**81.60**	77.85	66.64	5%	22%	**80.29**	62.06	29%
Production mix (% of production)								
% priced with reference to WTI	**21%**	17%	14%			**17%**	13%	
% priced with reference to AECO	**20%**	21%	20%			**21%**	23%	
% priced with reference to Dated Brent	**59%**	62%	66%			**62%**	64%	

Reference prices

During the year ended December 31, 2011, the average WTI reference price increased by 20%, the average Edmonton sweet index increased by 28% and the average reference price of Dated Brent increased by 40%. The overall increase in crude oil reference prices was attributable to increased demand, supply constraints, improving economic conditions in North America, as well as supply disruptions due to geopolitical events in the Middle East and North Africa. For Canadian crude sales the most directly comparable reference price is the Edmonton sweet index reference price which during 2011, traded at a slight premium to WTI.

Throughout 2011, Dated Brent maintained a significant premium over WTI, whereas in previous years, Dated Brent traded at a slight discount to WTI. Fourth quarter 2011 developments, including the announcement by Enbridge Inc. to reverse the flow direction of the Seaway pipeline, which previously transported crude oil from Houston to Cushing, helped to reduce the Brent-WTI premium from US $23.70 per bbl in the third quarter of 2011 to US $15.25 per bbl in the fourth quarter of 2011. Vermilion continues to benefit from the premium Dated Brent commands over WTI, with 62% of total consolidated production in 2011 (2010 – 64%) priced with reference to Dated Brent.

In 2011, the AECO reference price for natural gas remained depressed, on a heat equivalency basis, relative to the pricing of crude oil due to an abundance of supply of natural gas in North America. This trend continued in the fourth quarter with the AECO average reference price declining 13% from the third to the fourth quarter as warm weather in North America reduced the consumption of natural gas and increased inventory levels.

The price of natural gas in the Netherlands is based on pricing established by GasTerra, a statutory entity which purchases all natural gas produced by Vermilion in the Netherlands. The price is derived using a formula that takes into account the market price of heating and fuel products; as such, it is highly correlated with Dated Brent pricing. The Netherlands oil-linked gas price is formulaically derived to approximate the price of gas in the Netherlands and accordingly, is calculated using a trailing average of Dated Brent and the National Balancing Point reference price for natural gas in the United Kingdom.

Realized pricing

The realized price of Vermilion's production of crude oil in Canada is highly correlated to WTI but is subject to market conditions in Alberta, which can lead to a significant price differential, as reflected by the Edmonton sweet index price above. The realized price of Vermilion's production of NGLs in Canada is based on a market based differential to WTI and pricing at the Edmonton, Alberta and Conway, Kansas trading hubs for NGLs. The realized price of Vermilion's production of natural gas in Canada is based on the AECO spot price in Alberta.

The realized price of Vermilion's production of crude oil in France and Australia is based on Dated Brent.

The increase in the Netherlands realized gas price in 2011 relative to 2010 is associated with the strengthening of Dated Brent prices in the latter part of 2010 and early 2011. The year over year increase in Dated Brent led to an increase in the Netherlands realized gas price as the pricing increased from $9.78 (€ 7.07) per mcf for the third quarter of 2011 to $10.57 (€ 7.67) per mcf for the fourth quarter of 2011.

Average realized prices in each country will differ from their corresponding average reference prices due to a number of factors, including the timing of the sale of production and differences in the grade of production and point of settlement. Additionally, in Canada, average realized prices are impacted by the production mix of crude oil, NGLs and natural gas. The increase in average realized prices in Canada quarter over quarter were due in large part to the increased price of WTI, as noted above, and an increase in relative crude oil and NGLs production from 36% of the total production in Canada in the year ended December 31, 2010 to 45% of the total production in Canada in the year ended December 31, 2011.

On a consolidated basis, for the year ended December 31, 2011, crude oil and NGL production represented approximately 63% of total production (year ended December 31, 2010 - 62%). Production priced with reference to crude oil (WTI and Dated Brent) represented approximately 79% of total production in the year ended December 31, 2011 (year ended December 31, 2010, 77%). This increase in relative crude oil and NGL production, along with the increase in the reference prices of WTI and Dated Brent, resulted in an increase to the consolidated average realized price from $62.06 per boe in the year ended December 31, 2010 to $80.29 per boe in the year ended December 31, 2011.

CAPITAL EXPENDITURES AND ACQUISITION OF PROPERTIES

	Three Months Ended			Year Ended	
By category ($M)	**Dec 31, 2011**	**Sept 30, 2011**	**Dec 31, 2010**	**Dec 31, 2011**	**Dec 31, 2010**
Land	**18,073**	35,041	911	**68,319**	97,215
Seismic	**3,731**	2,090	3,651	**9,694**	6,600
Drilling and completion	**74,287**	62,412	47,099	**227,666**	167,771
Production equipment and facilities	**47,283**	28,049	41,534	**151,488**	114,369
Recompletions	**3,377**	3,399	4,590	**17,767**	14,798
Other	**5,500**	3,790	7,650	**15,846**	31,429
Total capital expenditures	**152,251**	134,781	105,435	**490,780**	432,182
Property acquisitions	**12,777**	-	-	**50,878**	448
Total capital expenditures and acquisitions	**165,028**	134,781	105,435	**541,658**	432,630

	Three Months Ended			Year Ended	
By classification ($M)	**Dec 31, 2011**	**Sept 30, 2011**	**Dec 31, 2010**	**Dec 31, 2011**	**Dec 31, 2010**
Drilling and development	**129,478**	89,332	103,592	**411,227**	414,152
Exploration and evaluation	**22,773**	45,449	1,843	**79,553**	18,030
Total capital expenditures	**152,251**	134,781	105,435	**490,780**	432,182
Property acquisitions	**12,777**	-	-	**50,878**	448
Total capital expenditures and acquisitions	**165,028**	134,781	105,435	**541,658**	432,630

	Three Months Ended			Year Ended	
By country ($M)	**Dec 31, 2011**	**Sept 30, 2011**	**Dec 31, 2010**	**Dec 31, 2011**	**Dec 31, 2010**
Canada	**110,147**	92,993	52,967	**364,453**	242,900
France	**12,663**	8,806	20,793	**57,534**	48,758
Netherlands	**17,172**	8,707	4,513	**37,015**	11,017
Australia	**11,205**	2,549	12,549	**20,653**	51,457
Ireland	**13,841**	21,726	14,613	**62,003**	78,498

Capital expenditures for the three months ended December 31, 2011 were higher than for the three months ended September 30, 2011 and the three months ended December 31, 2010. The increase in expenditures from the third to the fourth quarter of 2011 was primarily the result of increased drilling and completion activity in Canada associated with Vermilion's development of the Cardium light oil resource play, offset partially by fewer land acquisitions in the fourth quarter of 2011. Acquisitions in the fourth quarter of 2011 pertained to the unitization of the Rotleigend zone of the Vinkega-1 well in the Netherlands resulting from the purchase of production licenses relating to this zone.

Year over year increases in capital expenditures were primarily the result of the development of the Cardium light oil resource play during the year in addition to work over activity in France, a drilling program in the Netherlands, and preliminary spending for a drilling campaign in Australia for 2012.

PETROLEUM AND NATURAL GAS SALES

By product ($M except per boe and per mcf)	Three Months Ended Dec 31, 2011	Sept 30, 2011	Dec 31, 2010	% change Q4/11 vs. Q3/11	Q4/11 vs. Q4/10	Year Ended Dec 31, 2011	Dec 31, 2010	% change 2011 vs. 2010
Crude oil & NGLs	**227,166**	202,303	177,374	12%	28%	**852,514**	578,926	47%
Per boe	**105.49**	100.71	83.88	5%	26%	**104.58**	79.54	31%
Natural gas	**48,006**	46,058	39,052	4%	23%	**179,056**	148,879	20%
Per mcf	**6.57**	6.50	5.74	1%	14%	**6.35**	5.58	14%
Petroleum and natural gas sales	**275,172**	248,361	216,426	11%	27%	**1,031,570**	727,805	42%
Per boe	**81.60**	77.85	66.64	5%	22%	**80.29**	62.06	29%

By country ($M except per boe)	Three Months Ended Dec 31, 2011	Sept 30, 2011	Dec 31, 2010	% change Q4/11 vs. Q3/11	Q4/11 vs. Q4/10	Year Ended Dec 31, 2011	Dec 31, 2010	% change 2011 vs. 2010
Canada	**82,342**	61,903	49,608	33%	66%	**259,854**	185,241	40%
Per boe	**59.03**	51.81	45.26	14%	30%	**53.82**	44.04	22%
France	**82,707**	80,845	68,297	2%	21%	**324,090**	249,031	30%
Per boe	**112.71**	108.40	85.10	4%	32%	**107.38**	80.26	34%
Netherlands	**33,753**	29,883	22,667	13%	49%	**116,227**	73,789	58%
Per boe	**62.95**	58.11	48.26	8%	30%	**57.51**	42.53	35%
Australia	**76,370**	75,730	75,854	1%	1%	**331,399**	219,744	51%
Per boe	**108.00**	102.98	86.23	5%	25%	**111.16**	81.86	36%

Vermilion's consolidated petroleum and natural gas sales for the three months ended December 31, 2011 increased relative to the three months ended September 30, 2011 by $26.8 million. This increase was primarily a result of overall higher pricing for crude oil and Netherlands' gas in the fourth quarter of 2011 as compared to the third quarter of 2011 and increased production in Canada and the Netherlands. Higher crude oil and Netherlands' gas prices resulted in a favorable price variance of $15.8 million while significantly increased volumes in Canada and slight increases in the Netherlands resulted in a favorable volume variance of $16.3 and $1.2 million, respectively. These favorable variances were offset partially by lower AECO natural gas prices, which resulted in $2.3 million lower natural gas sales in Canada and by lower production in France and Australia, which decreased sales by $1.3 million and $2.9 million, respectively.

Vermilion's consolidated petroleum and natural gas sales for the three months and year ended December 31, 2011 were higher than the comparable periods in 2010. Petroleum and natural gas sales increased from 2010 to 2011 by $303.8 million, resulting in $1.03 billion in overall petroleum and natural gas sales. Favorable crude oil and Netherlands gas prices resulted in a $238.1 million increase in sales year over year; however, this increase was partially offset by lower AECO natural gas prices, which resulted in an $11.2 million decrease in Canadian natural gas sales. Significantly increased production in Canada from Vermilion's Cardium light oil resource play resulted in a $47.1 million increase in sales while increased production in the Netherlands and Australia resulted in a $12.4 million and $24.3 million increase, respectively. These production increases were partially offset by slightly lower production in France, which resulted in unfavorable volume variance of $6.9 million.

Please refer to the Production and Commodity Prices sections of the MD&A for further discussion of these variances.

CRUDE OIL INVENTORY

Vermilion carries an inventory of crude oil in France and Australia, which reflects a timing difference between production and sales. Crude oil inventories increased in the fourth quarter of 2011 versus the third quarter of 2011 due to an increase in Australia's inventory of approximately 50,162 bbls, partially offset by a decrease in France's inventory of approximately 22,682 bbls.

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

Ending inventory balance	Q4 2011	Q3 2011	Q2 2011	Q1 2011
France (bbls)	**186,955**	209,637	215,132	167,438
France ($M) [1]	**6,518**	7,152	8,525	5,439
Australia (bbls)	**221,898**	171,736	62,397	226,183
Australia ($M) [1]	**7,367**	6,058	2,250	7,932
Total (bbls)	**408,853**	381,373	277,529	393,621
Total ($M) [1]	**13,885**	13,210	10,775	13,371

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

DERIVATIVE INSTRUMENTS

The nature of Vermilion's operations results in exposure to fluctuations in commodity prices, interest rates and foreign currency exchange rates. Vermilion monitors and, when appropriate, uses derivative financial instruments to manage its exposure to these fluctuations. All transactions of this nature entered into by Vermilion are related to an underlying financial position or to future petroleum and natural gas production. Vermilion does not use derivative financial instruments for speculative purposes. Vermilion has elected not to designate any of its price risk management activities as accounting hedges and thus accounts for changes in fair value in net earnings at each reporting period. During the normal course of business, Vermilion may enter into fixed price arrangements to sell a portion of its production or purchase commodities for operational use. Vermilion does not apply fair value accounting on these contracts as they were entered into and continue to be held for the sale of production or operational use in accordance with the Company's expected requirements. Vermilion does not obtain collateral or other security to support its financial derivatives as management reviews the creditworthiness of its counterparties prior to entering into derivative contracts.

The following table summarizes Vermilion's outstanding financial derivative positions as at December 31, 2011:

Risk Management	Funded Cost	bbls/d	US $/bbl
Collar - WTI			
January 2012 to June 2012	US $1.00/bbl	500	78.00 - 97.25
January 2012 to June 2012	US $1.00/bbl	500	78.00 - 101.80
January 2012 to June 2012	US $1.00/bbl	500	82.00 - 116.20
January 2012 to June 2012	US $1.00/bbl	500	82.00 - 116.25
January 2012 to June 2012	US $1.00/bbl	350	82.00 - 121.75
January 2012 to June 2012	US $1.00/bbl	250	82.00 - 124.05
January 2012 to June 2012	US $1.00/bbl	250	82.00 - 123.00
January 2012 to December 2012	US $1.00/bbl	250	82.00 - 119.45
July 2012 to December 2012	US $1.00/bbl	500	78.00 - 104.15
July 2012 to December 2012	US $1.00/bbl	500	82.00 - 99.35
July 2012 to December 2012	US $1.00/bbl	500	82.00 - 115.10
Collar - DATED BRENT			
January 2012 to June 2012	US $1.00/bbl	750	82.00 - 105.60
January 2012 to June 2012	US $1.00/bbl	750	82.00 - 104.80
January 2012 to June 2012	US $1.00/bbl	750	82.00 - 106.10
January 2012 to June 2012	US $1.00/bbl	500	95.00 - 120.65
January 2012 to June 2012	US $1.00/bbl	350	95.00 - 123.05
January 2012 to December 2012	US $1.00/bbl	1,000	82.00 - 113.40
January 2012 to December 2012	US $1.00/bbl	500	82.00 - 115.50
January 2012 to December 2012	US $1.00/bbl	500	82.00 - 130.75
July 2012 to December 2012	US $1.00/bbl	1,000	82.00 - 126.55
July 2012 to December 2012	US $1.00/bbl	1,000	82.00 - 126.05
Put - DATED BRENT			
January 2012 to December 2012	US $4.46/bbl	600	83.00
January 2012 to December 2012	US $4.90/bbl	600	83.00
January 2012 to December 2012	US $4.49/bbl	600	83.00
January 2012 to December 2012	US $4.39/bbl	600	83.00
January 2012 to December 2012	US $3.65/bbl	500	83.00

The impact of Vermilion's derivative based risk management activities decreased the fund flows netback for the three months and year ended December 31, 2011 by $1.81 per boe and $2.20 per boe, respectively. This compares to an increase of $0.72 per boe and $0.61 per boe for the same periods in 2010. The higher cost of risk management activities in the three and twelve months ended December 31, 2011 was associated with stronger crude oil prices that exceeded the ceiling on certain collars entered into for 2011. An up to date listing of Vermilion's outstanding derivative instruments is available on Vermilion's website at http://www.vermilionenergy.com/ir/hedging.cfm

ROYALTIES

By product ($M except per boe and per mcf)	Three Months Ended Dec 31, 2011	Sept 30, 2011	Dec 31, 2010	% change Q4/11 vs. Q3/11	Q4/11 vs. Q4/10	Year Ended Dec 31, 2011	Dec 31, 2010	% change 2011 vs. 2010
Crude oil & NGLs	**14,233**	12,675	10,989	12%	30%	**50,945**	39,556	29%
Per boe	**6.61**	6.31	5.20	5%	27%	**6.25**	5.43	15%
Natural gas	**772**	808	98	(4)%	688%	**3,290**	4,416	(25)%
Per mcf	**0.11**	0.11	0.01	-	1,000%	**0.12**	0.17	(29)%
Royalties	**15,005**	13,483	11,087	11%	35%	**54,235**	43,972	23%
Per boe	**4.45**	4.23	3.41	5%	30%	**4.22**	3.75	13%
% of petroleum and natural gas sales	**5.5%**	5.4%	5.1%			**5.3%**	6.0%	

By country ($M except per boe)	Three Months Ended Dec 31, 2011	Sept 30, 2011	Dec 31, 2010	% change Q4/11 vs. Q3/11	Q4/11 vs. Q4/10	Year Ended Dec 31, 2011	Dec 31, 2010	% change 2011 vs. 2010
Canada	**10,176**	8,351	6,819	22%	49%	**34,980**	27,982	25%
Per boe	**7.29**	6.99	6.22	4%	17%	**7.25**	6.65	9%
% of petroleum and natural gas sales	**12.4%**	13.5%	13.7%			**13.5%**	15.1%	
France	**4,829**	5,132	4,268	(6)%	13%	**19,255**	15,990	20%
Per boe	**6.58**	6.88	5.32	(4)%	24%	**6.38**	5.15	24%
% of petroleum and natural gas sales	**5.8%**	6.3%	6.2%			**5.9%**	6.4%	

As a result of Vermilion's adoption of IFRS, Australian PRRT is no longer classified as a royalty and instead is accounted for as an income tax. Accordingly, royalty figures presented for both the current and prior periods in this MD&A and the accompanying financial statements exclude PRRT. Vermilion's previously published MD&A for the three and twelve months ended December 31, 2010 included PRRT of $18.2 million and $39.5 million, respectively, within royalties for those periods. The prior period figures presented here have been restated to reflect the reclassification of these amounts to income taxes.

Consolidated royalties per boe for the three and twelve months ended December 31, 2011 were $4.45 and $4.22, respectively, (three and twelve months ended December 31, 2010, $3.41 and $3.75, respectively). As a percent of sales, royalties for the three and twelve months ended December 31, 2011 were 5.5% and 5.3%, respectively (three and twelve months ended December 31, 2010, 5.1% and 6.0%, respectively). Royalties for the third quarter of 2011 were $4.23 per boe and represented 5.4% of consolidated petroleum and natural gas sales.

In Canada, royalties as a percentage of sales for the three and twelve months ended December 31, 2011 were 12.4% and 13.5%, respectively (three and twelve months ended December 31, 2010, 13.7% and 15.1%, respectively). Canadian royalties as a percentage of sales for the third quarter of 2011 were 13.5%. Crude oil and NGL royalties as a percentage of sales decreased for the current year to 16.0% from 21.0% for the prior year due to a change in the royalty framework implemented in 2010 whereby royalties are levied on horizontal crude oil wells at a flat 5% rate for the first 50,000 bbls to 100,000 bbls of production depending on well depth. As Vermilion has continued to drill more Cardium wells which benefit from this royalty incentive, the Company's crude oil and NGL royalty expense as a percentage of sales has declined. Canadian natural gas royalties as a percentage of sales decreased to 5.3% for the year ended December 31, 2011 as compared to 6.0% for the prior year as a result of lower pricing year over year.

In France, the primary portion of the royalties levied is based on units of production and therefore is not subject to changes in commodity prices. Accordingly, as crude oil prices were higher during 2011 as compared to 2010, royalties as a percentage of sales decreased to 5.9% for 2011 from 6.4% in the prior year.

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

OPERATING EXPENSE

By product ($M except per boe and per mcf)	Three Months Ended Dec 31, 2011	Sept 30, 2011	Dec 31, 2010	% change Q4/11 vs. Q3/11	Q4/11 vs. Q4/10	Year Ended Dec 31, 2011	Dec 31, 2010	% change 2011 vs. 2010
Crude oil & NGLs	**29,249**	32,190	25,479	(9)%	15%	**119,448**	98,278	22%
Per boe	**13.58**	16.03	12.05	(15)%	13%	**14.65**	13.50	9%
Natural gas	**11,264**	11,098	14,135	1%	(20)%	**42,936**	46,317	(7)%
Per mcf	**1.54**	1.57	2.08	(2)%	(26)%	**1.52**	1.73	(12)%
Operating	**40,513**	43,288	39,614	(6)%	2%	**162,384**	144,595	12%
Per boe	**12.01**	13.57	12.20	(11)%	(2)%	**12.64**	12.33	3%

By country ($M except per boe)	Three Months Ended Dec 31, 2011	Sept 30, 2011	Dec 31, 2010	% change Q4/11 vs. Q3/11	Q4/11 vs. Q4/10	Year Ended Dec 31, 2011	Dec 31, 2010	% change 2011 vs. 2010
Canada	**11,970**	13,473	11,464	(11)%	4%	**51,473**	40,848	26%
Per boe	**8.58**	11.28	10.46	(24)%	(18)%	**10.66**	9.71	10%
France	**11,381**	14,281	11,161	(20)%	2%	**46,922**	43,498	8%
Per boe	**15.51**	19.15	13.91	(19)%	12%	**15.55**	14.02	11%
Netherlands	**5,141**	3,991	6,008	29%	(14)%	**17,487**	18,217	(4)%
Per boe	**9.59**	7.76	12.79	24%	(25)%	**8.65**	10.50	(18)%
Australia	**12,021**	11,543	10,981	4%	9%	**46,502**	42,032	11%
Per boe	**17.00**	15.70	12.48	8%	36%	**15.60**	15.66	-

Consolidated operating expense was $40.5 million or $12.01 per boe and $162.4 million or $12.64 per boe, respectively, for the three and twelve months ended December 31, 2011 (three and twelve months ended December 31, 2010, $39.6 million or $12.20 per boe and $144.6 million or $12.33 per boe, respectively). Consolidated operating expense for the third quarter of 2011 was $43.3 million or $13.57 per boe.

In Canada, fourth quarter operating expense of $12.0 million was lower than the $13.5 million for the third quarter of 2011 due to lower costs related to road and lease maintenance as well as less major project work. Operating expense for the fourth quarter of 2011 is consistent with the expense for the same quarter of the prior year. Increased volumes resulted in lower Canadian operating expense per boe in the fourth quarter of 2011 as compared to both the third quarter of 2011 and the fourth quarter of the prior year. Canadian operating expense increased to $51.5 million for the year ended December 31, 2011 from $40.8 million in the prior year as a result of additional expenses associated with Vermilion's Cardium program. On a per boe basis, the impact of this increase in full year operating expense was partially offset by the associated increase in volumes.

In France, fourth quarter operating expense of $11.4 million was lower than the third quarter of 2011 expense of $14.3 million due to the timing of downhole intervention work. Operating expense for the fourth quarter of 2011 is consistent with the expense for the same quarter of the prior year. Lower volumes year over year resulted in an increase in France operating expense per boe for the fourth quarter of 2011 as compared to 2010. Fourth quarter 2011 operating expense per boe was lower than the previous quarter due to the lower levels of downhole expenditure on slightly lower volumes quarter over quarter. France operating expense increased to $46.9 million for the year ended December 31, 2011 from $43.5 million in 2010 as a result of higher salary and major project costs. The impact of this increase in full year operating expense coupled with slightly lower volumes resulted in a year over year increase in the operating expense per boe.

In the Netherlands, fourth quarter operating expense of $5.1 million was higher than the third quarter of 2011 expense of $4.0 million due to a scheduled maintenance program at the Garijp Treatment Centre. Operating expense for the fourth quarter of 2011 of $5.1 million was lower than the $6.0 million for the same quarter of the prior year due to higher treatment centre maintenance costs in the comparative period. The increased spending in the fourth quarter of 2011 as compared to the third quarter of 2011 resulted in increased operating expense per boe despite a slight increase in production in the fourth quarter. Year over year, fourth quarter 2011 operating expense was $3.20 per boe lower as compared to the fourth quarter of 2010 due in equal parts to reduced spending and increased volumes. Netherlands operating expense decreased slightly to $17.5 million for the year ended December 31, 2011 from $18.2 million in 2010.

In Australia, fourth quarter operating expense increased slightly to $12.0 million from the previous quarter's expense of $11.5 million and expense of $11.0 million for the same quarter of prior year due to a higher proportion of days where diesel, rather than produced gas, was used to operate the offshore platform. Lower volumes year over year coupled with this increased diesel use resulted in an increase in operating expense per boe for the fourth quarter of 2011 as compared to the same period in 2010. Fourth quarter 2011 operating expense per boe was slightly higher than the previous quarter due to the additional diesel expense as well as a minor decrease in production volume. Australia operating expense increased to $46.5 million for the year ended December 31, 2011 from $42.0 million in 2010 as a result of the additional use of diesel and higher salary costs. The impact of this increase in full year operating expense was offset by higher volumes resulting in a $0.06 per boe decrease in operating expense per boe year over year.

TRANSPORTATION EXPENSE

	Three Months Ended			% change		Year Ended		% change
By country ($M except per boe)	**Dec 31, 2011**	**Sept 30, 2011**	**Dec 31, 2010**	**Q4/11 vs. Q3/11**	**Q4/11 vs. Q4/10**	**Dec 31, 2011**	**Dec 31, 2010**	**2011 vs. 2010**
Canada	**1,972**	1,641	1,582	20%	25%	**6,599**	6,251	6%
Per boe	**1.41**	1.37	1.44	3%	(2)%	**1.37**	1.49	(8)%
France	**2,955**	2,567	2,477	15%	19%	**10,118**	10,637	(5)%
Per boe	**4.03**	3.44	3.09	17%	30%	**3.35**	3.43	(2)%
Ireland	**2,101**	2,253	2,242	(7)%	(6)%	**8,822**	9,810	(10)%
Transportation	**7,028**	6,461	6,301	9%	12%	**25,539**	26,698	(4)%
Per boe	**2.08**	2.03	1.94	2%	7%	**1.99**	2.28	(13)%

Transportation expense is a function of the point of legal transfer of the product and is dependent upon where the product is sold, product split, location of properties and industry transportation rates that are driven by supply and demand of available transport capacity.

For the majority of Canadian crude oil and natural gas production, legal title transfers upon delivery to major pipelines. In France, the majority of Vermilion's transportation expense relates to production from the Aquitaine Basin, which is transported by pipeline to the Ambès terminal in Bordeaux and then shipped by tanker to refineries in North Western Europe, where the production is sold when the tanker is unloaded. In Australia, crude oil is sold at the Wandoo B Platform and in the Netherlands, gas is sold at the plant gate, resulting in no transportation expense relating to Vermilion's production in these countries.

Transportation expense also includes the amount due under a ship or pay agreement related to the Corrib project. However, as there is a ceiling on the total payments due in relation to the associated pipeline, these expenses essentially represent a prepayment for future pipeline transportation services.

Overall, transportation expense for 2011 was lower than the previous year as a result of generally lower Ambès terminal costs in France. On a per boe basis, transportation expense for 2011 was lower than the previous year due to production increases in Canada that did not result in significantly higher transportation costs.

Transportation expense was higher during the three months ended December 31, 2011 when compared to the same period in 2010. This increase was primarily the result of pipeline inspection and training costs that were incurred for the Ambès terminal during the fourth quarter of this year.

GENERAL AND ADMINISTRATION EXPENSE

	Three Months Ended			% change		Year Ended		% change
($M except per boe)	**Dec 31, 2011**	**Sept 30, 2011**	**Dec 31, 2010**	**Q4/11 vs. Q3/11**	**Q4/11 vs. Q4/10**	**Dec 31, 2011**	**Dec 31, 2010**	**2011 vs. 2010**
General and administration	**9,753**	11,375	12,675	(14)%	(23)%	**44,583**	42,842	4%
Per boe	**2.89**	3.57	3.90	(19)%	(26)%	**3.47**	3.65	(5)%

General and administration expense for the fourth quarter of 2011 were lower than in the same period in the 2010. This variance was primarily the result of one-time costs incurred in the fourth quarter of 2010, including head office relocation costs and legal and advisory costs associated with the trust conversion and the restructuring of Vermilion's international holding companies, that were not incurred in the current year.

Overall, general and administration expenses in 2011 were higher than 2010 as a result of higher employee costs as Vermilion increased its staffing levels in Canada in support of its Cardium program and to identify future opportunities to generate long-term growth. On a per boe basis, general and administration expense was lower as production growth exceeded the increase in expenditures.

EQUITY BASED COMPENSATION EXPENSE

	Three Months Ended			% change		Year Ended		% change
($M except per boe)	**Dec 31, 2011**	**Sept 30, 2011**	**Dec 31, 2010**	**Q4/11 vs. Q3/11**	**Q4/11 vs. Q4/10**	**Dec 31, 2011**	**Dec 31, 2010**	**2011 vs. 2010**
Equity based compensation	**16,150**	7,609	10,614	112%	52%	**38,667**	34,576	12%
Per boe	**4.79**	2.39	3.27	100%	46%	**3.01**	2.95	2%

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

The increase in equity based compensation expense from the third to the fourth quarter of 2011 and the increase from the fourth quarter of 2010 to the fourth quarter of 2011 was primarily attributable to performance condition adjustments based on new information available in the fourth quarter of 2011. Overall, equity based compensation expense was higher in 2011 compared to 2010 as a result of the aforementioned increase in staffing levels in Canada in support of its Cardium program and to identify future opportunities to generate long-term growth.

INTEREST EXPENSE

	Three Months Ended			% change		Year Ended		% change
($M except per boe)	**Dec 31, 2011**	**Sept 30, 2011**	**Dec 31, 2010**	**Q4/11 vs. Q3/11**	**Q4/11 vs. Q4/10**	**Dec 31, 2011**	**Dec 31, 2010**	**2011 vs. 2010**
Interest expense	**6,365**	6,659	3,482	(4)%	83%	**24,967**	13,370	87%
Per boe	**1.89**	2.09	1.07	(10)%	77%	**1.94**	1.14	70%

While year end borrowings under the revolving credit facility have decreased, they have on average been higher during 2011 than in 2010 as a result of increased capital expenditures. This higher average debt level during 2011 and the issuance of the senior unsecured notes in the first quarter of 2011 coupled with the higher interest rate associated with these notes resulted in higher interest expense in 2011 compared to 2010.

DEPLETION AND DEPRECIATION, ACCRETION AND IMPAIRMENT EXPENSES

	Three Months Ended			% change		Year Ended		% change
($M except per boe)	**Dec 31, 2011**	**Sept 30, 2011**	**Dec 31, 2010**	**Q4/11 vs. Q3/11**	**Q4/11 vs. Q4/10**	**Dec 31, 2011**	**Dec 31, 2010**	**2011 vs. 2010**
Depletion and depreciation	**64,895**	60,516	60,462	7%	7%	**236,708**	183,620	29%
Per boe	**19.24**	18.97	18.62	1%	3%	**18.42**	15.66	18%
Accretion	**5,793**	5,378	4,597	8%	26%	**21,889**	17,903	22%
Per boe	**1.72**	1.69	1.42	2%	21%	**1.70**	1.53	11%
Impairments	**64,400**	-	19,840	100%	225%	**64,400**	19,840	225%
Per boe	**19.10**	-	6.11	100%	213%	**5.01**	1.69	196%

Depletion and depreciation expense on a per boe basis has remained relatively consistent throughout 2011 and overall are higher than expenses on a per boe basis recognized in 2010. This increase is primarily the result of higher finding, development and acquisition costs incurred by Vermilion, which resulted from increased liquids development in Canada.

Accretion expense on a per boe basis has similarly remained relatively consistent throughout 2011 and overall are higher than expenses recognized in 2010. Accretion expense has generally increased year over year as a result of increases in the underlying asset retirement obligations due to new wells drilled during 2011 and previously recorded adjustments to the present value of the obligations.

The impairment loss in the fourth quarter of 2011 relates to impairment charges recorded on certain of Vermilion's Canadian natural gas producing properties. These impairment charges were the result of significant declines in the forward pricing assumptions for natural gas in Canada. Impairment charges in 2010 relate to goodwill acquired in a previous business combination, which was identified as impaired in the fourth quarter of 2010.

TAXES

By product ($M except per boe)	Three Months Ended Dec 31, 2011	Sept 30, 2011	Dec 31, 2010	% change Q4/11 vs. Q3/11	Q4/11 vs. Q4/10	Year Ended Dec 31, 2011	Dec 31, 2010	% change 2011 vs. 2010
Current taxes before PRRT	**33,446**	24,599	29,349	36%	14%	**120,019**	72,701	65%
Per boe	**9.92**	7.71	9.04	29%	10%	**9.34**	6.20	51%
PRRT	**21,541**	18,281	18,192	18%	18%	**99,075**	39,537	151%
Per boe	**6.39**	5.73	5.60	12%	14%	**7.71**	3.37	129%
Current taxes	**54,987**	42,880	47,541	28%	16%	**219,094**	112,238	95%
Per boe	**16.31**	13.44	14.64	21%	11%	**17.05**	9.57	78%

By country ($M except per boe)	Three Months Ended Dec 31, 2011	Sept 30, 2011	Dec 31, 2010	% change Q4/11 vs. Q3/11	Q4/11 vs. Q4/10	Year Ended Dec 31, 2011	Dec 31, 2010	% change 2011 vs. 2010
Canada	**(783)**	467	623	(268)%	(226)%	**508**	1,343	(62)%
Per boe	**(0.56)**	0.39	0.57	(244)%	(198)%	**0.11**	0.32	(66)%
France	**17,738**	13,696	28,768	30%	(38)%	**65,964**	50,075	32%
Per boe	**24.17**	18.36	35.85	32%	(33)%	**21.86**	16.14	35%
Netherlands	**6,431**	2,571	(8,910)	150%	172%	**18,149**	(3,425)	630%
Per boe	**11.99**	5.00	(18.97)	140%	163%	**8.98**	(1.97)	556%
Australia	**31,601**	26,146	27,060	21%	17%	**134,473**	64,245	109%
Per boe	**44.69**	35.56	30.76	26%	45%	**45.10**	23.93	88%

Vermilion pays current taxes in France, the Netherlands and Australia. Corporate income taxes in France and the Netherlands apply to taxable income after eligible deductions at a rate of approximately 34% and 46%, respectively.

In Australia, current taxes include both corporate income taxes and PRRT. Corporate income taxes are applied at a rate of approximately 30% on taxable income after eligible deductions, which include PRRT. PRRT is a profit based tax applied at a rate of 40% on revenues less eligible expenditures, which includes operating expenses and capital expenditures.

Current taxes before PRRT increased in 2011 relative to 2010 both in dollar terms and on a per boe basis. This increase is attributable to higher year over year taxable income associated with overall stronger commodity prices and generally higher production.

PRRT increased in 2011 relative to 2010 both in dollar terms and on a per boe basis due to higher crude oil prices and reduced capital expenditures. On a percentage of operating income basis, PRRT was 37% of operating income for 2011, higher than the 2010 percentage of 22% due to lower capital expenditures in 2011 as compared to 2010. Capital expenditures are deductible in determining PRRT when incurred, and the reduction of capital spending in Australia in 2011 versus 2010 resulted in an increase in PRRT in 2011.

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

As at December 31, 2011, Vermilion had the following tax pools:

($M)	Oil & Gas Assets	Tax Losses[4]	Other	Total
Canada	736,578[1]	369,662	18,472	1,124,712
France	137,467[2]	64,914	-	202,381
Netherlands	36,058[3]	-	-	36,058
Australia	201,746[1]	-	-	201,746
Ireland	616,246[4]	137,784	-	754,030
Total	1,728,095	572,360	18,472	2,318,927

[1] Deduction calculated using various declining balance rates

[2] Deduction calculated using a combination of straight-line over the assets life and unit of production method

[3] Deduction calculated using a unit of production method

[4] Development expenditures and tax losses are deductible at 100% against taxable income

FOREIGN EXCHANGE

	Three Months Ended			Year Ended	
($M except per boe)	**Dec 31, 2011**	**Sept 30, 2011**	**Dec 31, 2010**	**Dec 31, 2011**	**Dec 31, 2010**
Unrealized foreign exchange loss	**24,974**	1,260	15,293	**11,022**	40,582
Per boe	**7.41**	0.39	4.71	**0.86**	3.46
Realized foreign exchange (gain) loss	**(1,252)**	670	(76)	**(1,024)**	(5,623)
Per boe	**(0.37)**	0.21	(0.02)	**(0.08)**	(0.48)
Foreign exchange loss	**23,722**	1,930	15,217	**9,998**	34,959
Per boe	**7.04**	0.60	4.69	**0.78**	2.98

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

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

In 2011 and 2010, unrealized foreign exchange loss of $11.0 million and $40.6 million, respectively, resulted from the impact of the appreciation of the Canadian dollar against the Euro on Euro denominated loans made by Vermilion to its subsidiaries. The impact of the Canadian dollar appreciation against the Euro was more significant in 2010 due to the 11.2% appreciation from December 31, 2009 to December 31, 2010 as compared to the 0.9% appreciation from December 31, 2010 to December 31, 2011.

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

NET EARNINGS (LOSS)

For the three months and year ended December 31, 2011, Vermilion had a net loss of $30.2 million or $0.32 per share and net earnings of $142.8 million or $1.57 per share, respectively (three months and year ended December 31, 2010, net loss of $21.8 million or $0.25 per share and net earnings of $44.4 million or $0.53 per share, respectively).

The net loss in the fourth quarter of 2011 was the result of impairment charges of $64.4 million recorded on Vermilion's Canadian natural gas producing properties. These impairment charges resulted from significant declines in the price forecasts for natural gas in Canada. In the event that commodity prices recover, the carrying value of these assets, net of applicable depletion, will be recovered resulting in a gain to net earnings in the period the impairment reversal occurs.

The significant increase year over year in net earnings, is the primarily result of overall higher production and generally favourable commodity prices offset partially by higher current taxes and the impairment charge discussed above.

Summary of Results

	Year Ended		Three Months Ended							
($M except per share)	**Dec 31, 2011**	**Dec 31, 2010**	**Dec 31, 2011**	**Sept 30, 2011**	**June 30, 2011**	**March 31, 2011**	**Dec 31, 2010**	**Sept 30, 2010**	**June 30, 2010**	**March 31, 2010**
Petroleum and natural gas sales	**1,031,570**	727,805	**275,172**	248,361	278,297	229,740	216,426	172,253	169,545	169,581
Net earnings (loss)	**142,821**	44,395	**(30,243)**	64,442	81,429	27,193	(21,809)	24,576	49,811	(8,183)
Net earnings (loss) per share										
Basic	**1.57**	0.53	**(0.32)**	0.71	0.90	0.30	(0.25)	0.29	0.62	(0.10)
Diluted	**1.55**	0.53	**(0.32)**	0.70	0.89	0.30	(0.25)	0.29	0.44	(0.10)

LIQUIDITY AND CAPITAL RESOURCES

Vermilion's net debt as at December 31, 2011 was $429.0 million compared to $303.3 million as at December 31, 2010.

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

	As At	
($M)	**Dec 31, 2011**	**Dec 31, 2010**
Revolving credit facility	**152,086**	302,558
Senior unsecured notes	**221,350**	-
Total long-term debt	**373,436**	302,558

Revolving Credit Facility

At December 31, 2011, 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 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 year ended December 31, 2011, the interest rate on the revolving credit facility was between 3.2% and 3.8% (2010 - between 2.9 and 3.5%).

The amount available to Vermilion under this facility is reduced by outstanding letters of credit associated with Vermilion's operations totaling $3.7 million as at December 31, 2011.

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 less certain debts related to Corrib (defined as consolidated total debt), to consolidated net earnings before interest, income taxes, depreciation, accretion and other certain non-cash items of not greater than 4.0. In addition, Vermilion must maintain a ratio of consolidated total senior debt (consolidated total debt excluding unsecured and subordinated debt) to consolidated earnings before interest, income taxes, depreciation, accretion and other certain non-cash items of not greater than 3.0.

As at December 31, 2011, Vermilion is in compliance with its financial covenants.

Senior Unsecured Notes

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

Vermilion may, at its option, prior to February 10, 2014, redeem up to 35% of the notes with net proceeds of equity offerings by the Company at a redemption price equal to 106.5% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date. Subsequently, Vermilion may, on or after February 10, 2014, redeem all or part of the notes at fixed redemption prices, plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date. The notes were initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost using an effective interest rate of 7.1%.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As at December 31, 2011, Vermilion had the following contractual obligations and commitments:

($M)	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**	**Total**
Long-term debt (excluding interest)	-	152,086	221,350	-	373,436
Amount due pursuant to acquisition	137,295	-	-	-	137,295
Operating lease obligations	8,575	17,297	14,921	41,681	82,474
Ship or pay agreement related to the Corrib project	7,588	11,954	9,273	43,292	72,107
Purchase obligations	19,309	2,207	2,111	670	24,297
Drilling and service agreements	10,913	-	-	-	10,913
Total contractual obligations	183,680	183,544	247,655	85,643	700,522

EQUITY ISSUANCE

On November 28, 2011 Vermilion completed an equity issuance of 5,370,000 common shares at $49.00 per common share for gross proceeds of approximately $263.1 million including the partial exercise of the underwriters' overallotment option (the "Offering").

The intended use of net proceeds of the Offering of approximately $252.0 million was to reduce a certain amount of outstanding indebtedness under the revolving credit facility and to partially fund Vermilion's future development capital program and for use in prospective acquisitions.

For the year ending December 31, 2011, Vermilion used the net proceeds as follows:

($M)	Intended use of net proceeds	Use of net proceeds	Remaining net proceeds
Reduction of outstanding indebtedness under the revolving credit facility	59,000	61,000	(2,000)
Partially fund the Company's development capital program and prospective acquisitions	192,204	107,000	85,204
General purposes	800	-	800
	252,004	168,000	84,004

RECLAMATION FUND

After an extensive review, Vermilion concluded that the reclamation fund assets would be more effectively employed supporting Vermilion's operations. On July 2010, the reclamation fund assets were liquidated and the proceeds were initially used to reduce outstanding bank indebtedness and will ultimately help support Vermilion's capital programs. Vermilion will fund future reclamation costs out of current resources as they become due, consistent with standard industry practice.

ASSET RETIREMENT OBLIGATIONS

As at December 31, 2011, Vermilion's asset retirement obligations were $310.5 million compared to $267.4 million as at December 31, 2010.

The increase in asset retirement obligations is largely attributable to changes in the discount rates applied to the obligations, accretion and additions from the recognition of obligations relating to the wells drilled during 2011. These increases were partially offset by obligations settled during the year, changes in estimates for existing obligations and the impact of foreign exchange rates on foreign currency denominated obligations.

DIVIDENDS

	Three Months Ended	Year Ended	
($M)	Dec 31, 2011	Dec 31, 2011	Dec 31, 2010
Cash flows from operating activities	**158,639**	**447,092**	421,282
Net earnings (loss)	**(30,243)**	**142,821**	44,395
Dividends declared	**53,871**	**207,846**	189,744
Excess of cash flows from operating activities over dividends declared	**104,768**	**239,246**	231,538
(Shortfall) excess of net earnings (loss) over dividends declared	**(84,114)**	**(65,025)**	(145,349)

Vermilion maintained monthly dividends at $0.19 per share and declared dividends totalling $207.8 million for 2011.

Excess cash flows from operating activities over dividends declared are used to fund capital expenditures, asset retirement obligations and debt repayments.

Vermilion's policy with respect to dividends is to be conservative and retain a low ratio of dividends to fund flows from operations. During low price commodity cycles, Vermilion will initially maintain dividends and allow the ratio to rise. Should commodity price cycles remain low for an extended period of time, Vermilion will evaluate the necessity to change the level of dividends, taking into consideration capital development requirements, debt levels and acquisition opportunities.

Following Vermilion's conversion to a trust in January 2003, distributions remained at $0.17 per unit per month until an increase to $0.19 per unit per month in December 2007. Effective September 1, 2010, Vermilion converted to a corporation and has been paying dividends of $0.19 per share per month.

Over the next three years, the Corrib, Cardium and other exploration and development activities will require a significant capital investment by Vermilion. As such, Vermilion's fund flows from operations may not be sufficient during this period to fund future cash dividends, capital expenditures and asset retirement obligations. Vermilion will evaluate its ability to finance any shortfalls with debt, an issuance of equity or by reducing some or all categories of expenditures to ensure that total expenditures do not exceed available funds.

SHAREHOLDERS' EQUITY

During the year ended December 31, 2011, Vermilion issued 7,431,893 common shares pursuant to the November equity offering, the dividend reinvestment plan and Vermilion's equity based compensation programs. Shareholders' capital increased by $342.4 million as a result of the issuance of those shares.

As at December 31, 2011, there were 96,430,135 shares outstanding. As at March 1, 2012, there were 96,713,280 shares outstanding.

Since inception, Vermilion has declared $1.3 billion in dividends to shareholders as compared to shareholders' capital of $1.4 billion as at December 31, 2011.

CORRIB PROJECT

Vermilion holds an 18.5% non-operating interest in the offshore Corrib gas field located off the northwest coast of Ireland. Production from Corrib is expected to increase Vermilion's volumes by approximately 54 mmcf (9,000 boe/d) once the field reaches peak production. Vermilion acquired its 18.5% working interest in the project on July 30, 2009. The project comprises seven offshore wells, both offshore and onshore pipeline segments as well as a significant natural gas processing facility. At the time of the acquisition most of the key components of the project, with the exception of the onshore pipeline, were either complete or in the latter stages of development. Vermilion's interest was acquired for cash consideration of $136.8 million with subsequent capital expenditures to December 31, 2011 of $243.8 million, primarily related to completion of the natural gas processing facility, sub-surface well work, and permitting and preparations for construction of the onshore pipeline. Furthermore, pursuant to the terms of the acquisition agreement, Vermilion will make an additional payment to the vendor of US$135 million at the end of 2012. In 2011, approvals and permissions were granted for the onshore gas pipeline and construction has commenced with tunnelling expected to begin in the fourth quarter of 2012. Vermilion expects to continue significant capital investment on this project over the next two years and currently expects to achieve initial gas production from this field in late 2014.

RISK AND UNCERTAINTIES AND RISK MANAGEMENT

Risk and Uncertainties

Crude oil and natural gas exploration, production, acquisition and marketing operations involve a number of risks and uncertainties. These include fluctuations in commodity prices, exchange rates and interest rates as well as uncertainties associated with reserve volumes, production and sales volumes and governmental regulatory and income tax regime changes. These risks and uncertainties, as well as other important risks and uncertainties, are discussed in additional detail below.

Commodity Prices
Vermilion's operational results and financial condition will be dependent on the prices received by Vermilion for oil and natural gas production. Oil and natural gas prices have fluctuated significantly during recent years and are determined by supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions.

Exchange Rates
Much of Vermilion's revenue stream is priced in U.S. dollars and as such an increase in the strength of the Canadian dollar relative to the U.S. dollar may result in the receipt of fewer Canadian dollars by Vermilion in respect of its production. In addition, Vermilion incurs expenses and capital costs in U.S. dollars, Euros and Australian dollars and accordingly, the Canadian dollar equivalent of these expenditures as reported by Vermilion in its financial results is impacted by the prevailing foreign currency exchange rates at the time the transaction occurs. Vermilion monitors risks associated with exchange rates and, when appropriate, uses derivative financial instruments to manage its exposure to these risks.

Production and Sales Volumes
The operation of oil and gas wells and facilities involves a number of operating and natural hazards which may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to Vermilion and possible liability to third parties. Vermilion maintains liability insurance, where available, in amounts consistent with industry standards. Business interruption insurance may also be purchased for selected operations, to the extent that such insurance is commercially viable. Vermilion may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities may materially impact Vermilion's financial results.

Continuing production from a property, and to some extent the marketing of production, is largely dependent upon the ability of the operator of the property. To the extent the operator fails to perform these functions properly, revenue may be reduced. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent. Although satisfactory title reviews are generally conducted in accordance with industry standards, such reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat the claim of Vermilion or its subsidiaries to certain properties. Such circumstances could negatively affect Vermilion's financial results.

An increase in operating costs or a decline in Vermilion's production level could have an adverse effect on Vermilion's financial results. The level of production may decline at rates greater than anticipated due to unforeseen circumstances, many of which are beyond Vermilion's control. A significant decline in production could result in materially lower revenues.

Interest Rates
An increase in interest rates could result in a significant increase in the amount Vermilion pays to service debt.

Reserve Volumes
Vermilion's reserve volumes and related reserve values support the carrying value of Vermilion's oil and gas assets on the consolidated balance sheets and provide the basis to calculate the depletion of those costs. There are numerous uncertainties inherent in estimating quantities of reserves and future net revenues to be derived therefrom, including many factors beyond Vermilion's control. These include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of crude oil and natural gas, operating expenses, well abandonment and salvage values, royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on estimated prices in use at the date the evaluation was prepared, and many of these assumptions are subject to change and are beyond Vermilion's control. Actual production and income derived therefrom will vary from these evaluations, and such variations could be material.

Asset Retirement Obligations
Vermilion's asset retirement obligations are based on environmental regulations and estimates of future costs and the timing of expenditures. Changes in environmental regulations, the estimated costs associated with reclamation activities and the related timing may impact Vermilion's financial position and results of operations.

Corrib Project
Vermilion is exposed to uncertainties associated with the timing of first gas resulting from the timing of completion for a section of the onshore pipeline relating to the Corrib project.

Governmental Regulatory and Income Tax Regime
Vermilion's operations are governed by many levels of government, including municipal, state, provincial and federal governments, in Canada, France, the Netherlands, Australia and Ireland. Vermilion is subject to laws and regulations regarding health and safety issues, lease interests, taxes and royalties, among others. Failure to comply with the applicable laws can result in significant increases in costs, penalties and even losses of operating licences. The regulatory process involved in each of the countries in which Vermilion operates is not uniform and regulatory regimes vary as to complexity, timeliness of access to, and response from, regulatory bodies and other matters specific to each jurisdiction. If regulatory approvals or permits are delayed or not obtained, there can also be delays or abandonment of projects, decreases in production and increases in costs, and Vermilion may not be able to fully execute its strategy. Governments may also amend or create new legislation and regulatory bodies may also amend regulations or impose additional requirements which could result in increased capital, operating and compliance costs.

There can be no assurance that income tax laws and government incentive programs relating to the oil and gas industry in Canada and the foreign jurisdictions in which Vermilion operates, will not be changed in a manner which adversely affects Vermilion's results of operations.

A change in the royalty regime resulting in an increase in royalties would reduce Vermilion's net earnings and could make future capital expenditures or Vermilion's operations uneconomic and could, in the event of a material increase in royalties, make it more difficult to service and repay outstanding debt. Any material increase in royalties would also significantly reduce the value of the associated assets.

Risk Management

To mitigate the aforementioned risks whenever possible, Vermilion seeks to hire personnel with experience in specific areas. In addition, Vermilion provides continued training and development to staff to further develop their skills. When appropriate, Vermilion uses third party consultants with relevant experience to augment its internal capabilities with respect to certain risks.

Vermilion considers its commodity price risk management program as a form of insurance that protects its cash flow and rate of return. The primary objective of the risk management program is to support Vermilion's dividends and its internal capital development program. The level of commodity price risk management that occurs is highly dependent on the amount of debt that is carried. When debt levels are higher, Vermilion will be more active in protecting its cash flow stream through its commodity price risk management strategy.

When executing its commodity price risk management programs, Vermilion uses financial instruments encompassing over-the-counter financial structures as well as fixed/collar structures to economically hedge a part of its physical natural gas and oil sales. Vermilion has strict controls and guidelines in relation to these activities and contracts only with counter parties that have high credit ratings.

CRITICAL ACCOUNTING ESTIMATES

Vermilion's financial and operating results contain estimates made by management in the following areas:

i. Capital expenditures are based on estimates of projects in various stages of completion;
ii. Revenues, royalties, operating expenses, and current taxes include accruals based on estimates of management;
iii. Fair value of derivative instruments are based on estimates that are subject to the fluctuation of commodity prices and foreign exchange rates;
iv. Depletion, depreciation and accretion are based on estimates of oil and gas reserves that Vermilion expects to recover in the future;
v. Asset retirement obligations are based on estimates of future costs and the timing of expenditures;
vi. The future recoverable value of capital assets and exploration and evaluation assets are based on estimates that Vermilion expects to realize; and
vii. Equity based compensation expense is determined using accepted fair value approaches which rely on historical data and certain estimates made by management.

OFF BALANCE SHEET ARRANGEMENTS

Vermilion has certain lease agreements that are entered into in the normal course of operations. All leases are operating leases and accordingly no asset or liability value has been assigned in the balance sheet as of December 31, 2011.

Vermilion uses a variety of derivatives including puts and calls to manage the risks associated with fluctuating commodity prices. Vermilion does not obtain collateral or other security to support its financial derivatives as Vermilion reviews the creditworthiness of the counterparty prior to entering into a derivative contract.

Vermilion has not entered into any guarantee or off balance sheet arrangements that would adversely impact Vermilion's financial position or results of operations.

ENVIRONMENT, HEALTH AND SAFETY

Vermilion is committed to ensure it conducts its activities in a manner that will protect the health and safety of its employees, contractors and the public. The health, safety and environment vision is to fully integrate health, safety and environment into Vermilion's business, where its culture is recognized as a model by industry and stakeholders, resulting in a workplace free of incidents.

Vermilion will maintain health, safety and environmental practices and procedures that comply or exceed regulatory requirements and industry standards. It is a condition of employment that Vermilion personnel work safely and in accordance with established regulations and procedures.

In 2011, Vermilion remained committed to the principles of the Responsible Canadian Energy™ program set out by the Canadian Association of Petroleum Producers. Responsible Canadian Energy™ is an association-wide performance reporting program to demonstrate progress in environmental, health, safety, and social performance.

Vermilion continued its commitment to reduce impacts to land, water and air, as policies and procedures demonstrating leadership in these areas, were maintained and further developed in 2011. Examples of accomplishments during the year included:

- Continuation of third party audits on our Health Safety and Environment ("HSE") Management System;
- Reducing long-term environmental liabilities through decommissioning, abandoning and reclaiming well leases and facilities;
- Continuous auditing and management inspections;
- Development, communication and measurement against leading and lagging HSE key performance indicators;
- Managing our waste products by reducing, recycling and recovering; and
- Continuing risk management efforts with detailed emergency-response planning.

Vermilion is a member of several organizations concerned with environment, health and safety, including numerous regional co-operatives and synergy groups. In the area of stakeholder relations, Vermilion works to build long-term relationships with environmental stakeholders and communities.

SENSITIVITIES

Crude oil and natural gas prices may change significantly because of factors Vermilion cannot control. The following table provides a summary of estimated sensitivities to price fluctuations for pro-forma production levels and expenses.

	Change in Cash Available for Dividends ($/share)	Change in Cash Available for Dividends ($MM)
Change in crude oil by US $1.00/bbl	0.06	6.0
Change in AECO prices by $0.10/mcf	0.02	1.6
Change in interest rate by one basis point	0.03	2.8
Change in CDN $/US $ foreign exchange rate by $0.01	0.06	5.3
Change in CDN $/Euro foreign exchange rate by $0.01	-	0.2

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") TRANSITION

Adoption of IFRS

Vermilion has prepared its December 31, 2011 consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board. Previously, Vermilion prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles as issued by the Canadian Accounting Standards Board ("Previous GAAP"). The adoption of IFRS has not had a material impact on Vermilion's operations, strategic decisions, cash flow or capital expenditures. Vermilion's IFRS accounting policies are provided in Note 2 to the consolidated financial statements. In addition, Note 25 to the Consolidated financial statements presents reconciliations between Vermilion's 2010 Previous GAAP results and the 2010 IFRS results. The reconciliations include the Consolidated Balance Sheet as at December 31, 2010; the Consolidated Statement of Net Earnings and Comprehensive Income, Consolidated Statement of Cash Flows for the year ended December 31, 2010; and the Consolidated Statement of Changes in Shareholders' or Unitholders' Equity as at January 1, 2010 and December 31, 2010.

The following provides summary reconciliations of Vermilion's 2010 Previous GAAP and IFRS results:

EFFECT OF TRANSITION ON NET EARNINGS AND COMPREHENSIVE INCOME

	Three Months Ended Dec 31, 2010	Year Ended Dec 31, 2010
Net earnings and comprehensive income - Previous GAAP	15,817	111,263
Increase in equity based compensation expense	2,618	(6,406)
Increase in loss on derivative instruments	(2,139)	(3,013)
Increase in unrealized foreign exchange loss	(29,011)	(61,091)
Decrease in accretion expense	(2)	250
Decrease in depletion and depreciation	16,494	69,783
Decrease in deferred income tax recovery	(5,746)	(23,663)
Goodwill impairment	(19,840)	(19,840)
Reversal of non-controlling interest - exchangeable shares	-	8,241
Remeasurement loss on liability associated with exchangeable shares	-	(31,129)
Net earnings (loss)	(21,809)	44,395
Currency translation adjustments	(14,697)	(31,577)
Comprehensive income (loss)	(36,506)	12,818

SUMMARY OF CHANGES IN ROYALTY AND CURRENT TAX EXPENSES

($M)	Three Months Ended Dec 31, 2010	Year Ended Dec 31, 2010
Royalty expense - Previous GAAP	29,279	83,509
Reclassification of Australia PRRT from royalties to current taxes	(18,192)	(39,537)
Royalties - IFRS	11,087	43,972

($M)	Three Months Ended Dec 31, 2010	Year Ended Dec 31, 2010
Current tax expense - Previous GAAP	29,349	72,701
Reclassification of Australia PRRT from royalties to current taxes	18,192	39,537
Current tax expense - IFRS	47,541	112,238

SUMMARY OF CHANGES IN FINANCIAL METRICS

($M)	Three Months Ended Dec 31, 2010	Year Ended Dec 31, 2010
Fund flows from operations - Previous GAAP	100,177	363,487
Reclassification of contingent consideration to operating activities from investing activities	(2,015)	(5,958)
Fund flows from operations - IFRS	98,162	357,529

($M)	As At Dec 31, 2010
Net debt - Previous GAAP	300,393
Reclassify current portion of deferred taxes to non-current	2,902
Net debt - IFRS	303,295

CORPORATE GOVERNANCE

Vermilion is committed to a high standard of corporate governance practices, a dedication that begins at the Board level and extends throughout the Company. We believe good corporate governance is in the best interest of our shareholders, and that successful companies are those that deliver growth and a competitive return along with a commitment to the environment, to the communities where they operate and to their employees.

We comply with the objectives and guidelines relating to corporate governance adopted by the Canadian Securities Administrators and the Toronto Stock Exchange. In addition, the Board monitors and considers the implementation of corporate governance standards proposed by various regulatory and non-regulatory authorities in Canada. A full examination of our corporate governance policies will be provided in our Management Proxy Circular, which will be filed on SEDAR (www.sedar.com) and mailed to all shareholders on April 4, 2012.

DISCLOSURE CONTROLS AND PROCEDURES

Vermilion's officers have established and maintained disclosure controls and procedures and evaluated the effectiveness of these controls in conjunction with Vermilion's filings.

As of December 31, 2011, Vermilion has evaluated the effectiveness of the design and operation of Vermilion's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded and certified that Vermilion's disclosure controls and procedures are effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

A company's internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Management has assessed the effectiveness of Vermilion's internal control over financial reporting as defined in Rule 13a-15 under the US Securities Exchange Act of 1934 and as defined in Canada by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Management concluded that Vermilion's internal control over financial reporting was effective as of December 31, 2011. The effectiveness of Vermilion's internal control over financial reporting as of December 31, 2011 has been audited by Deloitte & Touche LLP, as reflected in their report for 2011 as filed with the US Securities and Exchange Commission. No changes were made to Vermilion's internal control over financial reporting during the year ending December 31, 2011, that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

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

ANNUAL GENERAL MEETING

May 4, 2012 at 10:00 a.m.
The Ballroom
Metropolitan Centre
333 – 4th Avenue S.W.
Calgary, Alberta

OFFICERS AND KEY PERSONNEL

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

John D. Donovan, F.C.A.
Executive Vice President Business Development

Curtis W. Hicks, C.A.
Executive Vice President & CFO

G. R. (Bob) Mac Dougall, P.Eng.
Executive Vice President & COO

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

Raj C. Patel, P.Eng.
Vice President Marketing

Daniel Goulet, P.Eng.
Director Production and Operations

Cameron A. Hercus, MSc
Director Exploitation and New Growth

Dean N. Morrison, CFA
Director Investor Relations

Gerardo Rivera
Director Strategy and Portfolio Management

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

Paul L. Beique
Investor Relations

EUROPE
Peter Sider, P.Eng.
Vice President European Operations

David Burghardt, P.Eng.
Director Exploitation

Scott Ferguson, P.Eng.
Director European Operations

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

AUDITORS
Deloitte & Touche LLP
Calgary, Alberta

BANKERS
The Toronto-Dominion Bank
Calgary, Alberta

Bank of Montreal
Calgary, Alberta

BNP Paribas (Canada)
Toronto, Ontario

Royal Bank of Canada
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

National Bank of Canada
Calgary, Alberta

Citibank N.A., Canadian Branch
Calgary, Alberta

EVALUATION ENGINEERS
GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL
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

3500, 520 - 3rd Avenue S.W.
Calgary, Alberta T2P 0R3
403.269.4884 Telephone | 403.476.8100 Facsimile | 1.866.895.8101 Investor Relations Toll Free
www.vermilionenergy.com | investor_relations@vermilionenergy.com



EXHIBIT 99.3

VERMILION ENERGY INC.

2011 AUDITED ANNUAL FINANCIAL STATEMENTS



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 in Canada and internationally;
- the ability of Vermilion to market oil and natural gas successfully to current and new customers;
- the timing and costs of pipeline and storage facility construction and expansion and the ability to secure adequate product transportation;
- the timely receipt of required regulatory approvals;
- the ability of Vermilion to obtain financing on acceptable terms;
- foreign currency exchange rates and interest rates;
- future oil and natural gas prices; and
- Management's expectations relating to the timing and results of development activities.

Although Vermilion believes that the expectations reflected in such forward looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because Vermilion can give no assurance that such expectations will prove to be correct. Forward looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Vermilion and described in the forward looking statements or information. These risks and uncertainties include but are not limited to:

- the ability of management to execute its business plan;
- the risks of the oil and gas industry, both domestically and internationally, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;
- risks and uncertainties involving geology of oil and natural gas deposits;
- risks inherent in Vermilion's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- Vermilion's ability to enter into or renew leases;
- fluctuations in oil and natural gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;
- the ability of Vermilion to add production and reserves through development and exploration activities;
- general economic and business conditions;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments;
- risks associated with existing and potential future law suits and regulatory actions against Vermilion; and
- other risks and uncertainties described elsewhere in this document or in Vermilion's other filings with Canadian securities regulatory authorities.

The forward looking statements or information contained in this document are made as of the date hereof and Vermilion undertakes no obligation to update publicly or revise any forward looking statements or information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws.

Natural gas volumes have been converted on the basis of six thousand cubic feet of natural gas to one barrel of oil equivalent. Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

MANAGEMENT'S REPORT TO SHAREHOLDERS

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Vermilion Energy Inc. ("Vermilion" or the "Company") are the responsibility of management and have been approved by the Board of Directors of Vermilion Resources Ltd., on behalf of the Company. The financial statements have been prepared in accordance with accounting policies detailed in the notes to the financial statements and are in accordance with accounting principles generally accepted in Canada. Where necessary, management has made informed judgments and estimates of transactions that were not complete at the balance sheet date. Financial information throughout the Annual Report is consistent with the financial statements.

Management ensures the integrity of the financial statements by maintaining high-quality systems of internal control. Procedures and policies are designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded, and that the financial records are reliable for preparation of the financial statements.

Deloitte & Touche LLP, the Company's Independent Registered Chartered Accountants, have conducted an audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) and have provided their report.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board carries out this responsibility principally through the Audit Committee, which is appointed by the Board and is comprised entirely of independent Directors. The Committee meets periodically with management and Deloitte & Touche LLP to satisfy itself that each party is properly discharging its responsibilities and to review the consolidated financial statements, the Management's Discussion and Analysis and the Report of Independent Registered Chartered Accountants before they are presented to the Board of Directors.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A company's internal control system is designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the company's assets are appropriately accounted for and adequately safeguarded. Based on this evaluation, management concluded that Vermilion's system of internal control over financial reporting was effective as of December 31, 2011.

Deloitte & Touche LLP audited our consolidated financial statements as stated in their report which is on page 4 of this Exhibit 99.3 of Form 40-F and has issued an attestation report on our internal control over financial reporting.

(Signed "Lorenzo Donadeo")

Lorenzo Donadeo
President & Chief Executive Officer
March 1, 2012

(Signed "Curtis W. Hicks")

Curtis W. Hicks
Executive Vice President & Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Shareholders of Vermilion Energy Inc.

We have audited the accompanying consolidated financial statements of Vermilion Energy Inc. and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of net earnings and comprehensive income, consolidated statements of changes in shareholders' (unitholders') equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Vermilion Energy Inc. and subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

(Signed "Deloitte & Touche LLP")

Independent Registered Chartered Accountants
March 1, 2012
Calgary, Canada

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Shareholders of Vermilion Energy Inc.

We have audited the internal control over financial reporting of Vermilion Energy Inc. and subsidiaries (the "Company") as of December 31, 2011, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as at and for the year ended December 31, 2011 of the Company and our report dated March 1, 2012 expressed an unqualified opinion on those financial statements.

(Signed "Deloitte & Touche LLP")

Independent Registered Chartered Accountants
March 1, 2012
Calgary, Canada

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF CANADIAN DOLLARS)

	Note	December 31, 2011	December 31, 2010	January 1, 2010
ASSETS				
Current				
Cash and cash equivalents	19	**234,507**	160,755	114,961
Accounts receivable		**176,820**	147,329	117,051
Crude oil inventory		**13,885**	10,707	5,235
Derivative instruments	15	**186**	10,249	8,217
Prepaid expenses		**10,261**	11,157	11,422
		435,659	340,197	256,886
Derivative instruments	15	**-**	942	7,896
Deferred taxes	10	**175,545**	147,949	124,707
Exploration and evaluation assets	5	**92,301**	17,157	-
Goodwill	6	**-**	-	19,840
Reclamation fund	7	**-**	-	69,003
Capital assets	4	**2,031,682**	1,819,552	1,614,909
		2,735,187	2,325,797	2,093,241
LIABILITIES				
Current				
Accounts payable and accrued liabilities		**297,756**	252,319	195,909
Dividends or distributions payable	11	**18,322**	16,910	15,109
Derivative instruments	15	**11,568**	12,143	6,544
Income taxes payable		**36,407**	59,562	4,090
Amount due pursuant to acquisition	8	**127,131**	-	-
		491,184	340,934	221,652
Derivative instruments	15	**767**	8,157	4,563
Long-term debt	9	**373,436**	302,558	159,723
Amount due pursuant to acquisition	8	**-**	114,349	111,402
Asset retirement obligations	7	**310,531**	267,389	224,005
Equity based compensation liability	13	**-**	-	30,307
Deferred taxes	10	**227,668**	246,508	255,598
		1,403,586	1,279,895	1,007,250
Liability associated with exchangeable shares	12	**-**	-	217,992
SHAREHOLDERS' OR UNITHOLDERS' EQUITY				
Shareholders' capital	11	**1,368,145**	1,025,770	-
Unitholders' capital	11	**-**	-	711,667
Contributed surplus		**56,468**	40,726	-
Accumulated other comprehensive loss		**(33,387)**	(31,577)	-
Retained earnings (deficit)		**(59,625)**	10,983	156,332
		1,331,601	1,045,902	867,999
		2,735,187	2,325,797	2,093,241

APPROVED BY THE BOARD

(Signed "Kenneth Davidson") *(Signed "Lorenzo Donadeo")*

W. Kenneth Davidson, Director Lorenzo Donadeo, Director

CONSOLIDATED STATEMENTS OF NET EARNINGS AND COMPREHENSIVE INCOME
(THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE OR UNIT AND PER SHARE OR UNIT AMOUNTS)

	Note	Year Ended December 31, 2011	Year Ended December 31, 2010
REVENUE			
Petroleum and natural gas sales		**1,031,570**	727,805
Royalties		**(54,235)**	(43,972)
Petroleum and natural gas revenue		**977,335**	683,833
EXPENSES			
Operating	23	**162,384**	144,595
Transportation		**25,539**	26,698
Equity based compensation	13	**38,667**	34,576
Loss on derivative instruments	15	**31,340**	6,919
Interest expense		**24,967**	13,370
General and administration	23	**44,583**	42,842
Foreign exchange loss		**9,998**	34,959
Other expense		**1,155**	2,469
Accretion	7	**21,889**	17,903
Depletion and depreciation	4, 5	**236,708**	183,620
Impairments	4, 6	**64,400**	19,840
		661,630	527,791
EARNINGS BEFORE INCOME TAXES AND OTHER ITEM		**315,705**	156,042
INCOME TAXES	10		
Deferred		**(46,210)**	(31,720)
Current		**219,094**	112,238
		172,884	80,518
OTHER ITEM			
Remeasurement loss on liability associated with exchangeable shares	12	**-**	31,129
NET EARNINGS		**142,821**	44,395
OTHER COMPREHENSIVE LOSS			
Currency translation adjustments		**(1,810)**	(31,577)
COMPREHENSIVE INCOME		**141,011**	**12,818**
NET EARNINGS PER SHARE OR UNIT	14		
Basic		**1.57**	0.53
Diluted		**1.55**	0.53
WEIGHTED AVERAGE SHARES OR UNITS OUTSTANDING ('000s)	14		
Basic		**90,878**	83,155
Diluted		**92,272**	83,155

CONSOLIDATED STATEMENTS OF CASH FLOWS
(THOUSANDS OF CANADIAN DOLLARS)

	Note	Year Ended December 31, 2011	Year Ended December 31, 2010
OPERATING			
Net earnings		**142,821**	44,395
Adjustments:			
Accretion	7	**21,889**	17,903
Depletion and depreciation	4, 5	**236,708**	183,620
Impairments	4, 6	**64,400**	19,840
Unrealized loss on derivative instruments	15	**3,040**	14,115
Equity based compensation	13	**38,667**	34,576
Unrealized foreign exchange loss		**11,022**	40,582
Remeasurement loss on liability associated with exchangeable shares	12	**-**	31,129
Unrealized other expense		**1,999**	3,089
Deferred taxes	10	**(46,210)**	(31,720)
		474,336	357,529
Asset retirement obligations settled	7	**(23,071)**	(6,861)
Changes in non-cash operating working capital	16	**(4,173)**	70,614
Cash flows from operating activities		**447,092**	421,282
INVESTING			
Drilling and development	4	**(411,227)**	(414,152)
Exploration and evaluation	5	**(79,553)**	(18,030)
Property acquisitions	4	**(50,878)**	(448)
Sale of short-term investments		**-**	64,126
Withdrawals from reclamation fund		**-**	812
Changes in non-cash investing working capital	16	**(6,068)**	7,866
Cash flows used in investing activities		**(547,726)**	(359,826)
FINANCING			
(Decrease) increase in long-term debt	9	**(150,001)**	142,700
Issuance of senior unsecured notes	9	**220,561**	-
Issuance of shares or trust units pursuant to the dividend or distribution reinvestment plans	11	**59,081**	40,824
Cash dividends or distributions	11	**(206,434)**	(187,943)
Issuance of shares	11	**252,004**	-
Cash flows from (used in) financing activities		**175,211**	(4,419)
Foreign exchange loss on cash held in foreign currencies		**(825)**	(11,243)
Net change in cash and cash equivalents		**73,752**	45,794
Cash and cash equivalents, beginning of year		**160,755**	114,961
Cash and cash equivalents, end of year	19	**234,507**	160,755
Supplementary information for operating activities - cash payments			
Interest paid		**18,907**	13,585
Income taxes paid		**242,249**	56,766

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

	Note	Shareholders' or Unitholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' or Unitholders' Equity
Balances as at January 1, 2010		711,667	-	-	156,332	867,999
Currency translation adjustments		-	-	(31,577)	-	(31,577)
Vesting of equity based awards	13	23,149	-	-	-	23,149
Modification of equity based compensation from liability to equity		-	7,159	-	-	7,159
Issuance of shares or units pursuant to the dividend or distribution reinvestment plan		40,824	-	-	-	40,824
Equity based compensation expense		-	33,567	-	-	33,567
Shares or units issued on conversion of exchangeable shares	12	249,121	-	-	-	249,121
Units issued for bonus plan		1,009	-	-	-	1,009
Net earnings		-	-	-	44,395	44,395
Dividends or distributions declared		-	-	-	(189,744)	(189,744)
Balances as at December 31, 2010		1,025,770	40,726	(31,577)	10,983	1,045,902

	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
Currency translation adjustments		-	-	(1,810)	-	(1,810)
Vesting of equity based awards	13	22,139	(22,139)	-	-	-
Issuance of shares, net of deferred taxes		254,786	-	-	-	254,786
Issuance of shares pursuant to the dividend reinvestment plan		59,081	-	-	-	59,081
Equity based compensation expense		-	37,881	-	-	37,881
Shares issued for bonus plan		786	-	-	-	786
Net earnings		-	-	-	142,821	142,821
Dividends declared		-	-	-	(207,846)	(207,846)
Share-settled dividends on vested equity based awards	13	5,583	-	-	(5,583)	-
Balances as at December 31, 2011		1,368,145	56,468	(33,387)	(59,625)	1,331,601

DESCRIPTION OF EQUITY RESERVES

Shareholders' (Unitholders') capital
Represents the recognized amount for common shares or trust units when issued, net of equity issuance costs and deferred taxes. Prior to September 1, 2010, the equity instruments issued and outstanding were trust units.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010
(TABULAR AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE OR UNIT AND PER SHARE OR UNIT AMOUNTS)

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. The Company is the successor entity to Vermilion Energy Trust (the "Trust") following a corporate conversion completed on September 1, 2010 pursuant to an arrangement under the *Business Corporations Act* (Alberta).

As a result of the conversion, units of the Trust were converted to common shares of Vermilion on a one-for-one basis and holders of exchangeable shares in Vermilion Resources Ltd., a wholly owned subsidiary of Vermilion, received 1.89344 common shares of the Company for each exchangeable share held (Note 12). There were no exchangeable shares outstanding subsequent to the corporate conversion.

The conversion was accounted for on a continuity of interests basis, which recognizes Vermilion as the successor entity and accordingly, all comparative information presented for the pre-conversion period is that of the Trust. All transaction costs associated with the conversion were expensed as general and administration expense.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of Vermilion on March 1, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting Framework
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Principles of Consolidation
Subsidiaries that are directly controlled by Vermilion or indirectly controlled by other consolidated subsidiaries are fully consolidated. Vermilion accounts for jointly controlled operations and jointly controlled assets by recognizing its share of assets, liabilities, income and expenses. All significant intercompany balances, transactions, income and expenses are eliminated upon consolidation.

Vermilion currently has no special purpose entities of which it retains control and accordingly the consolidated financial statements do not include the accounts of any such entities.

Exploration and Evaluation Assets
Vermilion accounts for exploration and evaluation of petroleum and natural gas property ("E&E") costs in accordance with IFRS 6 "Exploration for and Evaluation of Mineral Resources". Costs incurred are classified as E&E costs when they relate to exploring and evaluating a property for which the Company has the licence or right to explore and extract resources.

E&E costs related to each license or prospect area are initially capitalized within E&E assets. E&E costs that are capitalized may include costs of licence acquisitions, technical services and studies, seismic acquisitions, exploration drilling and testing, directly attributable overhead and administration expenses and, if applicable, the estimated costs of retiring the assets. Any costs incurred prior to the acquisition of the legal rights to explore an area are expensed as incurred.

E&E assets are not depleted, and are carried at cost until technical feasibility and commercial viability of the area can be determined. The technical feasibility and commercial viability of extracting the reserves is considered to be determinable when proven and/or probable reserves are identified. If proven and/or probable reserves are identified as recoverable, the related E&E costs are reclassified to Petroleum and Natural Gas ("PNG") assets pending an impairment test. If reserves are not found within the license area or the area is abandoned, the related E&E costs are amortized over a period not greater than five years. E&E assets are subject to an impairment test at least annually, as part of the group of Cash Generating Units ("CGU's") attributable to the jurisdiction in which the exploration area resides.

Petroleum and Natural Gas Operations
Vermilion recognizes PNG assets at cost less accumulated depletion, depreciation and impairment losses. The cost of PNG assets as at January 1, 2010 was determined in accordance with the IFRS 1 "Deemed Cost for Oil and Gas Assets" exemption through the allocation of the pre-transition Canadian GAAP carrying value to depletion units based upon relative reserve values at that date (Note 26). Directly attributable costs incurred for the drilling of development wells and for the construction of production facilities are capitalized together with the discounted value of estimated future costs of asset retirement obligations. When components of PNG assets are replaced, disposed of, or no longer in use, they are derecognized.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gains and losses on disposal of a component of PNG assets, including oil and gas interests, are determined by comparing the proceeds of disposal with the carrying amount of the component, and are recognized net within depletion and depreciation.

Depletion and Depreciation
Vermilion classifies its assets into PNG depletion units, which are groups of assets or properties that are within a specific production area and have similar economic lives. The PNG depletion units represent the lowest level of disaggregation for which Vermilion accumulates costs for the purposes of calculating and recording depletion and depreciation.

The net carrying value of each PNG depletion unit is depleted using the unit of production method by reference to the ratio of production in the period to the total proven and probable reserves, taking into account the future development costs necessary to bring the applicable reserves into production. The reserve estimates are reviewed annually by management or when material changes occur to the underlying assumptions.

For the purposes of the depletion calculations, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content based on a conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

Furniture and equipment are recorded at cost and are depreciated on a declining-balance basis at rates ranging from 5% to 25% per year.

Impairment of Long-Lived Assets
E&E assets are tested for impairment when reclassified to PNG assets or when indicators of impairment are identified. An impairment loss is recognized for the amount by which the carrying value of E&E assets exceeds its recoverable amount. The recoverable amount is the higher of the E&E assets' fair value less costs to sell and their value in use.

PNG depletion units are aggregated into groups known as cash generating units ("CGU's") for impairment testing. The determination of CGU's is based on managements' judgement and represents the lowest level at which there is identifiable cash inflows that are largely independent of the cash inflows of other groups of assets or properties. CGUs are reviewed for indicators that the carrying value of the CGU may exceed its recoverable amount. If an indication of impairment exists, the CGU's recoverable amount is then estimated. A CGU's recoverable amount is defined as the higher of the fair value less costs to sell and its value in use. If the carrying amount exceeds its recoverable amount, an impairment loss is recorded to net earnings in the period to reduce the carrying value of the CGU to its recoverable amount.

For PNG assets and E&E assets, when there has been an impairment loss recognized, at each reporting date an assessment is performed as to whether the circumstances which led to the impairment loss have reversed. If the change in circumstances leads to the recoverable amount being higher than the carrying value after recognition of an impairment, that impairment loss is reversed. The reversal of the impairment loss cannot exceed the depreciated value of the asset had no impairment loss been previously recognized.

Cash and Cash Equivalents
Cash and cash equivalents include monies on deposit and short-term investments, which are comprised primarily of guaranteed investment certificates.

Crude Oil Inventory
Inventories of crude oil, consisting of production for which title has not yet transferred to the buyer, are valued at the lower of cost or net realizable value. Cost is determined on a weighted-average basis.

Goodwill
Goodwill is tested for impairment at least annually by comparing the fair value of the CGU to the carrying amount attributable to the goodwill. If the carrying amount exceeds the fair value, an impairment loss is recognized for the excess.

Provisions and Asset Retirement Obligations
Vermilion recognizes a provision or asset retirement obligation in the consolidated financial statements when an event gives rise to an obligation of uncertain timing or amount.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The estimated present value of the asset retirement obligation is recorded as a long term liability, with a corresponding increase in the carrying amount of the related asset. This increase is depleted with the related depletion unit and is allocated to a CGU for impairment testing. The liability recorded is increased each reporting period due to the passage of time and this change is charged to net earnings in the period as accretion expense. The asset retirement obligation can also increase or decrease due to changes in the estimated timing of cash flows, changes in the discount rate and/or changes in the original estimated undiscounted costs. Increases or decreases in the obligation will result in a corresponding change in the carrying amount of the related asset. Actual costs incurred upon settlement of the asset retirement obligation are charged against the asset retirement obligation to the extent of the liability recorded. Vermilion discounts the costs related to asset retirement obligations using the discount rate that reflects current market assessment of time value of money and risks specific to the liabilities that have not been reflected in the cash flow estimates. Vermilion applies discount rates applicable to each of the jurisdictions in which it has future asset retirement obligations. Asset retirement obligations are remeasured at each reporting period in order to reflect the discount rates in effect at that time.

A provision for onerous contracts is recognized when the expected benefits to be derived by Vermilion from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the lower of the expected cost of terminating the contract and the present value of the expected net cost of the remaining term of the contract. Before a provision is established, Vermilion first recognizes any impairment loss on assets associated with the onerous contract. For the periods presented in the consolidated financial statements there were no onerous contracts recognized.

Revenue Recognition
Revenues associated with the sale of crude oil, natural gas and natural gas liquids are recorded when title passes to the customer. For the majority of Canadian oil and natural gas production, legal title transfers upon delivery to major pipelines. In Australia, oil is sold at the Wandoo B Platform. In the Netherlands, natural gas is sold at the plant gate. In France, oil is sold either when delivered to the refinery by pipeline or when delivered to the refinery via tanker.

Financial Instruments
Cash and cash equivalents are classified as held for trading and are measured at fair value. A gain or loss arising from a change in the fair value is recognized in net earnings in the period in which it occurs.

Accounts receivable are classified as loans and receivables and are initially measured at fair value and are then subsequently measured at amortized cost. The carrying value of accounts receivable approximates the fair value due to the short-term nature of these instruments.

Accounts payable and accrued liabilities, dividends or distributions payable, long-term debt and amount due pursuant to acquisition have been classified as other financial liabilities and are initially recognized at fair value and are subsequently measured at amortized cost. Transaction costs and discounts are recorded against the fair value of long-term debt on initial recognition.

All derivative instruments have been classified as held for trading and are measured at fair value. Accordingly, gains and losses are reflected in net earnings in the period in which they arise.

Equity Based Compensation
Vermilion has equity based long-term compensation plans for directors, officers and employees of Vermilion and its subsidiaries. The expense recognized for equity based awards is measured as the grant date fair value of the award adjusted for the ultimate number of awards that eventually vest as determined by the Company's achievement of a number of performance conditions. Equity based compensation expense is recognized in net earnings over the vesting period of the awards with a corresponding adjustment to contributed surplus. Prior to September 1, 2010, Vermilion's equity based compensation plans were accounted for as liabilities (Note 13).

Upon vesting, the amount previously recognized in contributed surplus is reclassified to shareholders' capital. Vermilion has incorporated an estimated forfeiture rate based on historical vesting data.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Per Share or Unit Amounts
Net earnings per share or unit are calculated using the weighted-average number of shares or units outstanding during the period. Diluted net earnings per share or unit are calculated using the diluted weighted-average number of shares or units outstanding during the period. The diluted weighted-average number of shares is determined by considering whether equity based compensation plans, if converted during the year, would result in reduced net earnings per share.

The treasury stock method is used to determine the dilutive effect of equity based compensation plans. The treasury stock method assumes that the deemed proceeds related to unrecognized equity based compensation expense are used to repurchase shares at the average market price during the period. Equity based awards outstanding are included in the calculation of diluted net earnings per share or unit based on estimated performance factors.

Foreign Currency Translation
The consolidated financial statements are presented in Canadian dollars, which is Vermilion's reporting currency. As several of Vermilion's subsidiaries transact and operate primarily in environments other than Canada, they accordingly have functional currencies other than the Canadian dollar.

Transactions denominated in currencies other than the functional currency of the subsidiary are translated to the functional currency at the prevailing rates on the date of the transaction. Non-monetary assets or liabilities that result from such transactions are held at the prevailing rate on the date of the transaction. In contrast, monetary items denominated in non-functional currencies are translated to the functional currency of the subsidiary at the prevailing rate at the balance sheet date. All translations associated with currencies other than the respective functional currencies are recorded in net earnings.

Translation of all assets and liabilities from the respective functional currencies to the reporting currency are performed using the rates prevailing at the balance sheet date. The differences arising upon translation from the functional currency to the reporting currency are recorded as currency translation adjustments in other comprehensive loss and are held within accumulated other comprehensive loss until a disposal or partial disposal of a subsidiary. A disposal or partial disposal will then give rise to a realized foreign exchange (gain) loss which is recorded in net earnings.

Within the consolidated group there are outstanding intercompany loans which in substance represent investments in certain subsidiaries. When these loans are identified as part of the net investment in the foreign subsidiary, any exchange differences arising on those loans are recorded to currency translation adjustments within other comprehensive loss until the disposal or partial disposal of the subsidiary.

Income Taxes
Deferred taxes are calculated using the liability method whereby income tax assets and liabilities are recognized for the estimated tax consequences attributable to temporary differences between the amounts reported in the consolidated balance sheets of Vermilion and the respective tax bases using enacted or substantively enacted income tax rates in the respective jurisdictions that will be in effect when the differences are expected to reverse. The effect of a change in income tax rates on deferred tax liabilities and assets is recognized in net earnings in the period in which the related legislation is substantively enacted.

Vermilion is subject to current income taxes based on the tax legislation of each respective country in which Vermilion has operations.

Liability Associated with Exchangeable Shares
Exchangeable shares outstanding prior to corporate conversion were recorded as a liability until exchanged for trust units. The liability was remeasured at each reporting date to the associated redemption value with the resulting loss recorded within net earnings. When the exchangeable shares were converted into common shares upon conversion of the trust, the conversions were recorded as an extinguishment of the liability and accordingly the remeasured amount at the date of conversion was then recorded to equity.

Borrowing Costs
Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to prepare for its intended use are capitalized as part of the cost of that asset. Borrowing costs are capitalized by applying interest rates attributable to the project being financed and could include both general and/or specific borrowings. Interest rates applied from general borrowings are computed using the weighted average borrowing rate for the period.

Measurement Uncertainty
The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the periods presented.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Key areas where management has made complex or subjective judgements include asset retirement obligations, assessment of impairment of long-lived assets and deferred taxes. Actual results could differ from these and other estimates.

Asset Retirement Obligations
Vermilion's asset retirement obligations are based on environmental regulations and estimates of future costs and the timing of expenditures. Changes in environmental regulations, the estimated costs associated with reclamation activities, the discount rate applied and the timing of expenditures impact Vermilion's measurement of the obligations. Changes related to any of these assumptions could have a material impact on the financial position and net earnings of Vermilion.

Assessment of Impairments
Impairment tests are performed at the level of the CGUs, which are determined based on management's judgment of the lowest level at which there is identifiable cash inflows that are largely independent of the cash inflows of other groups of assets or properties. The factors used to determine CGUs vary by country due to the unique operating and geographical circumstances in each jurisdiction. However, in general, Vermilion will assess the following factors in determining whether a group of assets generate largely independent cash inflows: geographical proximity of the assets within a group to one another, geographical proximity of the group of assets to other groups of assets, homogeneity of the production from the group of assets and the sharing of infrastructure used to process or transport production.

The calculation of the recoverable amount of the assets is based on market factors as well as estimates of PNG reserves and future costs required to develop those reserves. Vermilion's reserves estimates and the related future cash flows are subject to measurement uncertainty, and the impact on the consolidated financial statements of future periods could be material. Considerable management judgment is used in determining the recoverable amount of PNG assets, including determining the quantity of reserves, the time horizon to develop and produce such reserves and the estimated revenues and expenditures of such production.

Deferred Taxes
Tax interpretations, regulations and legislation in the various jurisdictions in which Vermilion and its subsidiaries operate are subject to change. Such changes can affect the timing of the reversal of temporary tax differences, the tax rates in effect when such differences reverse and Vermilion's ability to use tax losses and other credits in the future. The determination of deferred tax amounts recognized in the consolidated financial statements was based on management's assessment of the tax positions, including consideration of their technical merits and communications with tax authorities, and management's view of the most likely expected outcome.

3. CHANGES TO ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements adopted
The year ended 2011 was Vermilion's first year preparing financial statements in accordance with IFRS. Accounting standards effective for the year ended December 31, 2011 have been adopted as part of the transition to IFRS.

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

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

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

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

3. CHANGES TO ACCOUNTING PRONOUNCEMENTS (Continued)

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

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

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

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, 2010	1,608,957	5,952	1,614,909
Additions	400,241	13,911	414,152
Property acquisitions	448	-	448
Borrowing costs capitalized	8,772	-	8,772
Changes in estimate for asset retirement obligations	43,621	-	43,621
Depletion and depreciation	(180,350)	(2,343)	(182,693)
Effect of movements in foreign exchange rates	(79,267)	(390)	(79,657)
Balance at December 31, 2010	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
Cost	1,608,957	15,150	1,624,107
Accumulated depletion and depreciation	-	(9,198)	(9,198)
Carrying value at January 1, 2010	1,608,957	5,952	1,614,909
Cost	1,984,963	27,986	2,012,949
Accumulated depletion and depreciation	(182,541)	(10,856)	(193,397)
Carrying value at December 31, 2010	1,802,422	17,130	1,819,552
Cost	2,427,848	30,148	2,457,996
Accumulated depletion and depreciation	(411,237)	(15,077)	(426,314)
Carrying value at December 31, 2011	2,016,611	15,071	2,031,682

Depletion and depreciation rates
PNG assets (unit of production method)
Furniture and office equipment (declining balance at rates of 5% to 25%)

During the year ended December 31, 2011, Vermilion capitalized $4.5 million (for the year ended December 31, 2010 – $1.3 million) of overhead costs directly attributable to PNG activities and $9.9 million (2010 – $8.8 million) of interest expense associated with the unwinding of the discount on the amount due pursuant to the Corrib acquisition (Note 8).

4. CAPITAL ASSETS (Continued)

At December 31, 2011 and December 31, 2010, Vermilion performed an assessment as to whether any 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 year ended December 31, 2011, Vermilion recorded an impairment charge of $64.4 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.

The benchmark prices used in the December 31, 2011 calculations of recoverable amounts are as follows:

CDN$/BOE	Canada	France	Netherlands	Australia	Ireland
2012	60.95	97.95	60.69	107.14	-
2013	65.34	98.04	61.64	107.14	-
2014	66.79	95.75	62.72	104.08	62.47
2015	67.06	93.64	64.58	102.04	64.24
2016	66.85	93.68	64.59	102.04	64.24
2017	67.37	93.85	64.59	102.04	64.24
2018	68.63	95.21	65.47	103.42	65.07
2019	69.80	97.10	66.79	105.49	66.33
2020	71.61	99.06	68.13	107.60	67.61
2021	73.72	101.01	69.49	109.76	68.91
Average increase thereafter	2.0%	2.0%	2.0%	2.0%	2.0%

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, 2010	-
Additions	18,030
Depreciation	(927)
Effect of movements in foreign exchange rates	54
Balance at December 31, 2010	17,157
Additions	79,553
Depreciation	(3,732)
Effect of movements in foreign exchange rates	(677)
Balance at December 31, 2011	92,301
Cost	18,060
Accumulated depreciation	(903)
Carrying value at December 31, 2010	17,157
Cost	96,773
Accumulated depreciation	(4,472)
Carrying value at December 31, 2011	92,301

E&E assets are held at cost less accumulated depreciation. Depreciation is recognized only if the costs are attributable to a project which was determined to not contain economic reserves. The useful life used in calculating depreciation is between one to five years and is assessed based upon the prospect or area and is recognized within depletion and depreciation expense.

6. GOODWILL

The following table reconciles the change in Vermilion's goodwill balance:

($M)	Goodwill
Balance at January 1, 2010	19,840
Goodwill impairment	(19,840)
Balance at December 31, 2010	-

The goodwill balance as at January 1, 2010 was the result of a previous business combination. As a result of declines in Canadian natural gas prices, it was determined that the carrying value of $19,840 was not recoverable and as such an impairment expense was recorded during the year ended December 31, 2010. The goodwill balance was a part of the Canadian conventional shallow gas CGU and was no longer recoverable due to a decline in the price forecasts for North American natural gas.

7. ASSET RETIREMENT OBLIGATIONS

Vermilion has estimated the net present value of its asset retirement obligations to be $310.5 million as at December 31, 2011 (December 31, 2010 - $267.4 million) based on a total undiscounted future liability after inflation adjustment of $1.2 billion (December 31, 2010 - $967.5 million). These payments are expected to be made between 2012 and 2061. Vermilion calculated the present value of the obligations using discount rates between 6.3% and 7.6% (2010 - between 7.4% and 9.4%) to reflect the market assessment of the time value of money as well as risks specific to the liabilities that have not been included in the cash flow estimates. Inflation rates used in determining the cash flow estimates were between 1.5% and 2.6% (2010 - between 1.4% and 2.6%).

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

($M)	Asset Retirement Obligations
Balance at January 1, 2010	224,005
Additional obligations recognized	851
Changes in estimates for existing obligations	39,352
Obligations settled	(6,861)
Accretion	17,903
Changes in discount rates	3,418
Effect of movements in foreign exchange rates	(11,279)
Balance at December 31, 2010	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

At least once per year, Vermilion reviews its estimates of the expected costs to reclaim the net interest in its wells and facilities. The resulting changes are categorized as changes in estimates for existing obligations in the table above. The significant changes in estimates for the year ended December 31, 2010 related primarily to the Netherlands operations and resulted from the availability additional data associated with the abandonment obligations.

Vermilion had previously established a reclamation fund to provide for the ultimate payout of the environmental and site restoration costs on its asset base. After an extensive review, Vermilion concluded that the reclamation fund assets would be more effectively employed supporting Vermilion's operations and in July 2010, the reclamation fund assets were liquidated.

8. AMOUNT DUE PURSUANT TO ACQUISITION

On July 30, 2009, Vermilion completed the acquisition of an 18.5% non-operated interest in the Corrib gas field located off the northwest coast of Ireland. Pursuant to the terms of the acquisition agreement, Vermilion will make a final payment to the vendor of US$135 million at the end of 2012.

To reflect the future payment due to the vendor, Vermilion recognized a non-current liability which was determined by discounting the expected future payment of US $135 million; this non-current liability has been reclassified to current liability for the year ended December 31, 2011. The discount rate used to present value this obligation was 8%, which is Vermilion's best estimate of the interest rate that would result from an arm's length financing transaction associated with the purchase of these assets.

9. LONG-TERM DEBT

Revolving Credit Facility

At December 31, 2011, 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 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 year ended December 31, 2011, the interest rate on the revolving credit facility was between 3.2% and 3.8% (2010 - between 2.9 and 3.5%).

The amount available to Vermilion under this facility is reduced by outstanding letters of credit associated with Vermilion's operations totaling $3.7 million as at December 31, 2011.

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 less certain debts related to Corrib (defined as consolidated total debt), to consolidated net earnings before interest, income taxes, depreciation, accretion and other certain non-cash items of not greater than 4.0. In addition, Vermilion must maintain a ratio of consolidated total senior debt (consolidated total debt excluding unsecured and subordinated debt) to consolidated earnings before interest, income taxes, depreciation, accretion and other certain non-cash items of not greater than 3.0.

As at December 31, 2011, Vermilion is in compliance with its financial covenants.

Senior Unsecured Notes

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

Vermilion may, at its option, prior to February 10, 2014, redeem up to 35% of the notes with net proceeds of equity offerings by the Company at a redemption price equal to 106.5% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to the applicable redemption date. Subsequently, Vermilion may, on or after February 10, 2014, redeem all or part of the notes at fixed redemption prices, plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date. The notes were initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost using an effective interest rate of 7.1%.

Long-term debt as at December 31, 2011, December 31, 2010 and January 1, 2010 is comprised of the following:

	As At		
($M)	**Dec 31, 2011**	**Dec 31, 2010**	**Jan 1, 2010**
Revolving credit facility	**152,086**	302,558	159,723
Senior unsecured notes	**221,350**	-	-
Total long-term debt	**373,436**	302,558	159,723

10. INCOME TAXES

The net deferred income tax liability at December 31, 2011 and 2010 is comprised of the following:

	As At	
($M)	**Dec 31, 2011**	**Dec 31, 2010**
Deferred income tax liabilities:		
Capital assets	**(264,700)**	(231,996)
Partnership income deferral	**(27,316)**	(6,427)
Asset retirement obligations	**(47,056)**	(37,147)
Basis difference of investments	**(413)**	(777)
Unrealized foreign exchange	**(21,589)**	(19,973)
Other	**(2,026)**	(582)
Deferred income tax assets:		
Derivative contracts	**3,037**	708
Capital assets	**60,202**	20,161
Non-capital losses	**174,143**	131,122
Cumulative eligible capital	**4,618**	2,259
Asset retirement obligations	**68,977**	44,093
Net deferred income tax liability	**(52,123)**	(98,559)
Comprised of:		
Deferred income tax asset	**175,545**	147,949
Deferred income tax liability	**(227,668)**	(246,508)
Net deferred income tax liability	**(52,123)**	(98,559)

The provision for income tax differs from the amount that would have been expected if the reported earnings had been subject only to the statutory Canadian income tax rate of 26.5% (2010 – 28.0%), as follows:

	Year Ended	
($M)	**Dec 31, 2011**	**Dec 31, 2010**
Earnings before income taxes and other item	**315,705**	156,042
Canadian corporate tax rate	**26.50%**	28.00%
Expected tax expense	**83,662**	43,692
Increase (decrease) in taxes resulting from:		
Petroleum resource rent tax rate differential [2]	**61,010**	45,688
Income attributable to Unitholders prior to corporate conversion (Note 1)	**-**	(34,226)
Impairment losses on Goodwill	**-**	5,555
Foreign tax rate differentials [1, 2]	**11,164**	(3,054)
Equity based compensation expense	**10,246**	9,682
Amended returns and changes to estimated tax pools	**(7,537)**	2,370
Changes in statutory tax rates and the estimated reversal rates associated with temporary differences	**(98)**	1,994
Adjustment for uncertain tax positions	**3,427**	(1,454)
Adjustment for share issuance costs	**2,782**	-
Other non-deductible items	**8,228**	10,271
Provision for income taxes	**172,884**	80,518

1 The corporate tax rate is 34.4% in France, 46.0% in the Netherlands and 25.0% in Ireland.

2 In Australia, current taxes include both corporate income taxes and PRRT. Corporate income taxes are applied at a rate of 30%, and PRRT is applied at a rate of 40%.

11. SHAREHOLDERS' OR UNITHOLDERS' CAPITAL

As a result of the conversion from an income trust to a corporation on September 1, 2010, (Note 1), all of the outstanding units of Vermilion Energy Trust were exchanged on a one-for-one basis for common shares of Vermilion Energy Inc. Exchangeable shares of Vermilion Resources Ltd., a wholly owned subsidiary of Vermilion Energy Trust, were converted to common shares of Vermilion Energy Inc. at the prevailing exchange ratio of 1.89344.

Vermilion is authorized to issue an unlimited number of common shares with no par value.

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

Unitholders' Capital	Number of Units	Amount ($M)
Balance as at January 1, 2010	79,523,028	711,667
Issuance of units pursuant to the distribution reinvestment plan	718,424	23,185
Units issued on conversion of exchangeable shares (Note 12)	4,547	135
Vesting of equity based awards	668,986	23,149
Units issued for bonus plan	28,624	1,009
Units exchanged pursuant to corporate conversion	(80,943,609)	(759,145)
Balance as at August 31, 2010	-	-

Shareholders' Capital	Number of Shares	Amount ($M)
Balance as at August 31, 2010	-	-
Issuance of shares for units pursuant to corporate conversion	80,943,609	759,145
Shares issued on conversion of exchangeable shares (Note 12)	7,586,546	248,986
Issuance of shares pursuant to the dividend reinvestment plan	468,087	17,639
Balance as at December 31, 2010	88,998,242	1,025,770
Issuance of shares, net of deferred taxes	5,370,000	254,786
Vesting of equity based awards	608,073	22,139
Share-settled dividends on vested equity based awards	114,487	5,583
Issuance of shares pursuant to the dividend reinvestment plan	1,323,482	59,081
Shares issued for bonus plan	15,851	786
Balance as at December 31, 2011	96,430,135	1,368,145

Dividends and Distributions

Dividends declared to shareholders for the year ended December 31, 2011 were $207.8 million (for the year ended December 31, 2010, distributions to unitholders and dividends to shareholders were $189.7 million). Dividends are determined by the Board of Directors and are paid monthly. Vermilion has a dividend reinvestment plan which allows eligible holders of common shares to purchase additional common shares at a 5% discount to market by reinvesting their cash dividends. Subsequent to the end of the period and prior to the consolidated financial statements being authorized for issue on March 1, 2012, Vermilion declared dividends totalling $36.7 million or $0.19 per share for each of January and February of 2012.

Equity Issuance

On November 28, 2011, Vermilion issued 5,370,000 common shares at $49.00 per common share for gross proceeds of approximately $263.1 million. The sale was completed on a bought deal basis and gross proceeds included partial exercise of the underwriters' over-allotment option. Net cash proceeds of $252.0 million were received by Vermilion; including the impact of deferred taxes, $254.8 million was recognized in Shareholder's capital.

Prior to Corporate Conversion

Prior to the corporate conversion which occurred on September 1, 2010, Vermilion's outstanding equity instruments consisted of publically traded trust units. Pursuant to applicable legislation, those trust units included a redemption feature which required Vermilion to assess the appropriate presentation of those units under IFRS.

The trust units were redeemable at the option of the trust unit holders. The redemption price was calculated as the lower of the closing price on the day the units were tendered for redemption and 90% of the market price of the units for the ten days after redemption. The Trust had no redemptions for the period for which the trust units were outstanding.

11. SHAREHOLDERS' OR UNITHOLDERS' CAPITAL (Continued)

In general, IFRS requires that financial instruments which include a redemption feature making the instruments puttable be presented as a liability rather than as equity. However, an exception to that requirement is available if the financial instrument meets certain criteria. Vermilion determined that its trust units met the requirements for this exception and accordingly the trust units are presented as equity for the periods prior to the corporate conversion.

Subsequent to Corporate Conversion

On September 1, 2010, Vermilion issued common shares in exchange for the outstanding trust units and exchangeable shares (Note 12). The conversion of the trust units was accounted for as an exchange of equity instruments at carrying value. The exchange of exchangeable shares for common shares was accounted for as an extinguishment of the liability associated with exchangeable shares at the redemption value which was measured on the date of the exchange.

12. LIABILITY ASSOCIATED WITH EXCHANGEABLE SHARES

From 2003 to September 1, 2010, inclusive, Vermilion had a number of exchangeable shares outstanding that did not meet the definition of an equity instrument in accordance with IAS 32 "Financial Instruments: Presentation" and accordingly were classified as financial liabilities. The exchangeable shares were recorded upon transition to IFRS at redemption value and subsequent to transition were remeasured at each balance sheet date to reflect the change in redemption value. The resulting change from carrying value to redemption value was recorded upon transition to IFRS (Notes 25 and 26) and at each reporting period to retained earnings and net earnings respectively. All dividends attributable to exchangeable shareholders were recorded within remeasurement loss on liability associated with exchangeable shares in the reporting period for which the dividends were declared.

As a result of the corporate conversion (Note 1), Vermilion issued 7,586,546 common shares in exchange for all remaining 4,006,753 exchangeable shares based on an exchange ratio of 1.89344. Prior to the corporate conversion, 4,547 units were issued on conversion of 2,500 exchangeable shares. There were no exchangeable shares outstanding following the conversion.

The following table summarizes the changes in the liability associated with exchangeable shares:

Liability Associated with Exchangeable Shares	Number of Exchangeable Shares	Amount ($M)
Balance as at January 1, 2010	4,009,253	217,992
Exchanged for trust units	(2,500)	(135)
Remeasurement loss on liability associated with exchangeable shares	-	31,129
Extinguishment of exchangeable share liability pursuant to corporate conversion	(4,006,753)	(248,986)
Balance as at December 31, 2010	-	-

13. EQUITY BASED COMPENSATION PLANS

Trust Unit Award Incentive Plan

Prior to corporate conversion on September 1, 2010, Vermilion established and issued unvested trust units under the Trust Unit Award Incentive Plan (the "TAP Plan"). The TAP Plan was established in 2005 and allowed for the issuance of unvested trust units of the Trust to directors, officers and employees of the Trust and its Affiliates.

At vesting, the ultimate number of unrestricted units received by the grantee under the TAP Plan was adjusted for the cumulative distributions which notionally accrued to the awards during the vesting period; the resulting total was multiplied by a performance factor based on the performance of the Trust compared to its peers which ranged from zero to two times the number of awards originally granted. Original awards to new employees vested in equal tranches over three years and subsequent grants vested after three years.

As the award holders were entitled to receive trust units, which under IFRS were considered puttable financial instruments, the awards were classified as liability based awards. The fair value of awards was estimated at each reporting period using a Monte Carlo simulation and the fair market value of the trust units as at the reporting date. Volatility was determined using historical market data for Vermilion and its peers. The resulting remeasurements of the liability were recorded as equity based compensation expense.

13. EQUITY BASED COMPENSATION PLANS (Continued)

Vermilion Incentive Plan

The Vermilion Incentive Plan (the "VIP Plan"), replaced the TAP Plan as part of the corporate conversion on September 1, 2010 whereby all TAP Plan awards were exchanged on a one-for-one basis for VIP Plan awards. At vesting, the ultimate number of unrestricted shares received by the grantee under the VIP Plan is adjusted for the cumulative dividends which notionally accrue to the awards during the vesting period and the resulting total is multiplied by a performance factor which ranges from zero to two times the number of awards originally granted.

The performance factor is determined by the Board of Directors after consideration of a number of key corporate performance measures including, but not limited to, shareholder return, capital efficiency metrics, production and reserves growth and safety performance. The total expense recognized over the vesting period for a VIP Plan award is based on the fair value of the unvested share at the date of grant adjusted for the performance factor ultimately achieved.

As a result of the corporate conversion, Vermilion's equity based compensation plan awards are now settled in non-redeemable common shares resulting in equity settled accounting under IFRS. Accordingly, at the date of conversion, the fair value of the vested portion of outstanding awards was reclassified from equity based compensation liability to contributed surplus.

The following table summarizes the number of awards outstanding under the TAP Plan and the VIP Plan. The table does not reflect the exchange of TAP Plan awards for VIP Plan awards as the exchange was completed on a one-for-one basis.

	Year Ended	
Number of Awards	**Dec 31, 2011**	**Dec 31, 2010**
Opening balance	**1,683,776**	1,417,314
Granted	**566,425**	845,199
Vested	**(434,150)**	(447,714)
Forfeited	**(65,996)**	(131,023)
Closing balance	**1,750,055**	1,683,776

The fair value of a VIP award is determined at the grant date as 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 year ended December 31, 2011, the awards granted had a weighted average fair value of $47.05 (2010 - $39.24).

The amount of equity compensation expense is reduced by an estimated forfeiture rate of 5.29% (2010 - 4.09%). Equity based compensation expense of $37.9 million was recorded during the year ended December 31, 2011 (2010 - $33.6) related to the VIP Plan and TAP Plan awards.

14. PER SHARE OR UNIT AMOUNTS

Basic and diluted net earnings per share or unit have been determined based on the following:

	Year Ended	
($M except per share or unit amounts)	**Dec 31, 2011**	**Dec 31, 2010**
Net earnings [1]	**142,821**	44,395
Basic weighted average shares or units outstanding [2]	**90,877,604**	83,155,116
Dilutive impact of equity based award plans	**1,394,461**	-
Diluted weighted average shares or units outstanding [3]	**92,272,065**	83,155,116
Basic earnings per share or unit ([1] ÷ [2])	**1.57**	0.53
Diluted earnings per share or unit ([1] ÷ [3])	**1.55**	0.53

Basic net earnings per share or unit has been calculated based on net earnings divided by the basic weighted average shares or units outstanding. For the year ended December 31, 2010, the exchangeable shares and the unit based compensation awards were anti-dilutive and accordingly were excluded from the number of shares and units outstanding for the calculation of diluted earnings per unit.

15. DERIVATIVE INSTRUMENTS

The nature of Vermilion's operations results in exposure to fluctuations in commodity prices, interest rates and foreign currency exchange rates. Vermilion monitors and, when appropriate, uses derivative financial instruments to manage its exposure to these fluctuations. All transactions of this nature entered into by Vermilion are related to an underlying financial position or to future petroleum and natural gas production. Vermilion does not use derivative financial instruments for speculative purposes. Vermilion has elected not to designate any of its price risk management activities as accounting hedges and thus accounts for changes in fair value in net earnings at each reporting period. During the normal course of business, Vermilion may enter into fixed price arrangements to sell a portion of its production or purchase commodities for operational use. Vermilion does not apply fair value accounting on these contracts as they were entered into and continue to be held for the sale of production or operational use in accordance with the Company's expected requirements. Vermilion does not obtain collateral or other security to support its financial derivatives as management reviews the creditworthiness of its counterparties prior to entering into derivative contracts.

The following table summarizes Vermilion's outstanding financial derivative positions as at December 31, 2011:

Risk Management	Funded Cost	bbls/d	US $/bbl
Collar - WTI			
January 2012 to June 2012	US $1.00/bbl	500	78.00 - 97.25
January 2012 to June 2012	US $1.00/bbl	500	78.00 - 101.80
January 2012 to June 2012	US $1.00/bbl	500	82.00 - 116.20
January 2012 to June 2012	US $1.00/bbl	500	82.00 - 116.25
January 2012 to June 2012	US $1.00/bbl	350	82.00 - 121.75
January 2012 to June 2012	US $1.00/bbl	250	82.00 - 124.05
January 2012 to June 2012	US $1.00/bbl	250	82.00 - 123.00
January 2012 to December 2012	US $1.00/bbl	250	82.00 - 119.45
July 2012 to December 2012	US $1.00/bbl	500	78.00 - 104.15
July 2012 to December 2012	US $1.00/bbl	500	82.00 - 99.35
July 2012 to December 2012	US $1.00/bbl	500	82.00 - 115.10
Collar - DATED BRENT			
January 2012 to June 2012	US $1.00/bbl	750	82.00 - 105.60
January 2012 to June 2012	US $1.00/bbl	750	82.00 - 104.80
January 2012 to June 2012	US $1.00/bbl	750	82.00 - 106.10
January 2012 to June 2012	US $1.00/bbl	500	95.00 - 120.65
January 2012 to June 2012	US $1.00/bbl	350	95.00 - 123.05
January 2012 to December 2012	US $1.00/bbl	1,000	82.00 - 113.40
January 2012 to December 2012	US $1.00/bbl	500	82.00 - 115.50
January 2012 to December 2012	US $1.00/bbl	500	82.00 - 130.75
July 2012 to December 2012	US $1.00/bbl	1,000	82.00 - 126.55
July 2012 to December 2012	US $1.00/bbl	1,000	82.00 - 126.05
Put - DATED BRENT			
January 2012 to December 2012	US $4.46/bbl	600	83.00
January 2012 to December 2012	US $4.90/bbl	600	83.00
January 2012 to December 2012	US $4.49/bbl	600	83.00
January 2012 to December 2012	US $4.39/bbl	600	83.00
January 2012 to December 2012	US $3.65/bbl	500	83.00

15. DERIVATIVE INSTRUMENTS (Continued)

The following table reconciles the change in the fair value of Vermilion's derivative instruments:

	Year Ended	
($M)	**Dec 31, 2011**	**Dec 31, 2010**
Fair value of contracts, beginning of year	**(9,109)**	5,006
Reversal of opening unrealized loss (gain) on contracts settled during the year	**8,494**	(2,070)
Realized (loss) gain on contracts settled during the year	**(28,300)**	7,196
Unrealized loss during the year on contracts outstanding at the end of the year	**(11,534)**	(12,045)
Net payment to (receipt from) counterparties on contract settlements during the year	**28,300**	(7,196)
Fair value of contracts, end of year	**(12,149)**	(9,109)
Comprised of:		
Current derivative asset	**186**	10,249
Current derivative liability	**(11,568)**	(12,143)
Non-current derivative asset	**-**	942
Non-current derivative liability	**(767)**	(8,157)
Fair value of contracts, end of year	**(12,149)**	(9,109)

The loss on derivatives for 2011 and 2010 are comprised of the following:

	Year Ended	
($M)	**Dec 31, 2011**	**Dec 31, 2010**
Realized loss (gain) on contracts settled during the year	**28,300**	(7,196)
Reversal of opening unrealized (loss) gain on contracts settled	**(8,494)**	2,070
Unrealized loss during the year on contracts outstanding at year-end	**11,534**	12,045
Loss on derivative instruments	**31,340**	6,919

16. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital is comprised of the following:

	Year Ended	
($M)	**Dec 31, 2011**	**Dec 31, 2010**
Changes in:		
Accounts receivable	**(29,491)**	(30,278)
Crude oil inventory	**(3,178)**	(5,472)
Prepaid expenses	**425**	400
Accounts payable and accrued liabilities and income taxes payable	**22,282**	111,882
Movements in foreign exchange rates	**(279)**	1,948
Changes in non-cash working capital	**(10,241)**	78,480
Changes in non-cash operating working capital	**(4,173)**	70,614
Changes in non-cash investing working capital	**(6,068)**	7,866
Changes in non-cash working capital	**(10,241)**	78,480

17. SEGMENTED INFORMATION

Vermilion has operations principally in Canada, France, the Netherlands, Australia and Ireland. Vermilion's entire operating activities are related to exploration, development and production of PNG. As each of the operating activities is undertaken in each of the countries in which Vermilion operates, the following segment information has been prepared by segregating the results into the geographic areas in which Vermilion operates. The segregation by country is consistent with how the financial performance of the business is measured internally by Vermilion's chief operating decision maker.

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

	Year Ended December 31, 2011					
($M)	**Canada**	**France**	**Netherlands**	**Australia**	**Ireland**	**Total**
Total assets	1,285,138	514,952	164,171	280,211	490,715	2,735,187
Drilling and development	261,101	53,611	13,859	20,653	62,003	411,227
Exploration and evaluation	64,597	3,923	11,033	-	-	79,553
Operating Income (Loss)						
Oil and gas sales to external customers	259,854	324,090	116,227	331,399	-	1,031,570
Royalties	(34,980)	(19,255)	-	-	-	(54,235)
Revenue from external customers	224,874	304,835	116,227	331,399	-	977,335
Realized loss on derivative instruments	(1,539)	(12,040)	-	(14,721)	-	(28,300)
Transportation expense	(6,599)	(10,118)	-	-	(8,822)	(25,539)
Operating expense	(51,473)	(46,922)	(17,487)	(46,502)	-	(162,384)
Operating income (loss)	165,263	235,755	98,740	270,176	(8,822)	761,112
Corporate income taxes	508	65,964	18,149	35,398	-	120,019
PRRT	-	-	-	99,075	-	99,075
Current income taxes	508	65,964	18,149	134,473	-	219,094

	Year Ended December 31, 2010					
($M)	**Canada**	**France**	**Netherlands**	**Australia**	**Ireland**	**Total**
Total assets	867,265	562,570	165,562	320,892	409,508	2,325,797
Drilling and development	242,452	48,758	11,017	51,457	60,468	414,152
Exploration and evaluation	-	-	-	-	18,030	18,030
Operating Income (Loss)						
Oil and gas sales to external customers	185,241	249,031	73,789	219,744	-	727,805
Royalties	(27,982)	(15,990)	-	-	-	(43,972)
Revenue from external customers	157,259	233,041	73,789	219,744	-	683,833
Realized gain on derivative instruments	5,709	1,487	-	-	-	7,196
Transportation expense	(6,251)	(10,637)	-	-	(9,810)	(26,698)
Operating expense	(40,848)	(43,498)	(18,217)	(42,032)	-	(144,595)
Operating income (loss)	115,869	180,393	55,572	177,712	(9,810)	519,736
Corporate income taxes	1,343	50,075	(3,425)	24,708	-	72,701
PRRT	-	-	-	39,537	-	39,537
Current income taxes	1,343	50,075	(3,425)	64,245	-	112,238

17. SEGMENTED INFORMATION (Continued)

Reconciliation of operating income to net earnings

	Year Ended	
($M)	**Dec 31, 2011**	**Dec 31, 2010**
Operating income	**761,112**	519,736
Equity based compensation	**(38,667)**	(34,576)
Unrealized loss on derivative instruments	**(3,040)**	(14,115)
Interest expense	**(24,967)**	(13,370)
General and administration	**(44,583)**	(42,842)
Foreign exchange loss	**(9,998)**	(34,959)
Other expense	**(1,155)**	(2,469)
Accretion	**(21,889)**	(17,903)
Depletion and depreciation	**(236,708)**	(183,620)
Impairments	**(64,400)**	(19,840)
Earnings before income taxes and other item	**315,705**	156,042
Income taxes	**(172,884)**	(80,518)
Remeasurement loss on liability associated with exchangeable shares	**-**	(31,129)
Net earnings	**142,821**	44,395

Vermilion has two major customers with revenues in excess of 10% within the France and the Netherlands segments. Sales to the major customer in the France segment for year ended December 31, 2011 were $232.0 million (2010 - $164.9 million). All sales in the Netherlands segment were to one customer.

18. COMMITMENTS

Vermilion had the following future commitments associated with its operating leases as at December 31, 2011:

($M)	**Less than 1 year**	**1 - 3 years**	**4 - 5 years**	**After 5 years**	**Total**
Payments by period	16,163	29,251	24,194	84,973	154,581

In addition, Vermilion has various other commitments associated with its business operations; none of which, in management's view, are significant in relation to Vermilion's financial position.

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents was comprised of the following:

($M)	**Dec 31, 2011**	**Dec 31, 2010**	**Jan 1, 2010**
Money on deposit with banks	**220,158**	145,623	99,066
Short-term investments	**14,349**	15,132	15,895
Cash and cash equivalents	**234,507**	160,755	114,961

20. CAPITAL DISCLOSURES

Vermilion defines capital as net debt (a non-standardized measure, which is defined by management as long-term debt as shown on the consolidated balance sheets plus net working capital) and shareholders' capital.

In managing capital, Vermilion reviews whether fund flows from operations (a non-standardized measure, defined by management as cash flows from operating activities before changes in non-cash operating working capital and asset retirement obligations settled), is sufficient to pay for all capital expenditures, dividends and abandonment and reclamation expenditures. To the extent that the forecasted fund flows from operations is not expected to be sufficient in relation to these expenditures, Vermilion will evaluate its ability to finance any excess with debt, an issuance of equity or by reducing some or all categories of expenditures to ensure that total expenditures do not exceed available funds.

Additionally, Vermilion monitors the ratio of net debt to fund flows from operations. Vermilion typically strives to maintain a ratio of net debt to fund flows from operations near 1.0. In a commodity price environment where prices trend higher, Vermilion may target a lower ratio and conversely, in a lower commodity price environment, the acceptable ratio may be higher. At times, Vermilion will use its balance sheet to finance acquisitions and, in these situations, Vermilion is prepared to accept a higher ratio in the short term but will implement a plan to reduce the ratio to acceptable levels within a reasonable period of time, usually considered to be no more than 12 to 18 months. This plan could potentially include an increase in hedging activities, a reduction in capital expenditures, an issuance of equity or the utilization of excess fund flows from operations to reduce outstanding indebtedness.

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

	Year Ended	
($M except as noted below)	**Dec 31, 2011**	**Dec 31, 2010**
Long-term debt	**373,436**	302,558
Current liabilities	**491,184**	340,934
Current assets	**(435,659)**	(340,197)
Net debt [1]	**428,961**	303,295
Cash flows from operating activities	**447,092**	421,282
Changes in non-cash operating working capital	**4,173**	(70,614)
Asset retirement obligations settled	**23,071**	6,861
Fund flows from operations [2]	**474,336**	357,529
Ratio of net debt to fund flows from operations ([1] ÷ [2])	**0.9**	0.8

For 2011, the ratio of net debt to fund flows from operations was 0.9. This was higher than 2010 as a result of increased long-term debt and current liabilities following the issuance of the senior unsecured notes in the first quarter of 2011 and the amount due pursuant to acquisition now being classified as a current liability as at the balance sheet date. The increase in debt levels resulted from the larger 2011 capital program and acquisitions and its impact on the ratio of net debt to fund flows from operations was partially offset by the share issuance in the fourth quarter and higher fund flows from operations year over year.

Vermilion is subject to certain externally imposed capital requirements under its revolving credit facility (Note 9). During the periods covered by these consolidated financial statements, Vermilion continued to comply with these requirements.

21. FINANCIAL INSTRUMENTS

Classification of Financial Instruments

The following table summarizes information relating to Vermilion's financial instruments as at December 31, 2011 and December 31, 2010:

				As at December 31, 2011		As at December 31, 2010		
Class of financial instrument	**Consolidated balance sheet caption**	**Accounting designation**	**Related caption on Statement of Net Earnings**	**Carrying value ($M)**	**Fair value ($M)**	**Carrying value ($M)**	**Fair value ($M)**	**Fair value measurement hierarchy**
Cash	Cash and cash equivalents	HFT	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	234,507	234,507	160,755	160,755	Level 1
Receivables	Accounts receivable	LAR	Gains and losses on foreign exchange are included in foreign exchange loss (gain) Impairments are recognized as general and administration expense	176,820	176,820	147,329	147,329	Not applicable
Derivative assets	Derivative instruments	HFT	(Gain) loss on derivative instruments	186	186	11,191	11,191	Level 2
Derivative liabilities	Derivative instruments	HFT	(Gain) loss on derivative instruments	(12,335)	(12,335)	(20,300)	(20,300)	Level 2
Payables	Accounts payable and accrued liabilities	OTH	Gains and losses on foreign exchange are included in foreign exchange loss (gain).	(316,078)	(316,078)	(269,229)	(269,229)	Not applicable
	Dividends or distributions payable							
Payables	Amount due pursuant to acquisition	OTH	Gains and losses on foreign exchange are included in foreign exchange loss (gain).	(127,131)	(127,131)	(114,349)	(114,349)	Not applicable
Long-term debt	Long-term debt	OTH	Interest expense	(373,436)	(383,275)	(302,558)	(302,558)	Not applicable

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 subsequently are 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. Fair values for derivative assets and derivative liabilities are determined using option 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 amount due pursuant to acquisition was determined by calculating the expected value of the future payment due to the vendor based on management's best estimates associated with the timing of first commercial gas and discounting the resulting amount. The discount rate which would be used to present value this obligation as at December 31, 2011 would not differ significantly from the discount rate originally used. 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.

21. FINANCIAL INSTRUMENTS (Continued)

Nature and Extent of Risks Arising From Financial Instruments

Vermilion is exposed to the following types of risks in relation to its financial instruments:

Credit risk:
Vermilion extends credit to customers and may, from time-to-time, be due amounts from counterparties in relation to derivative instruments. Accordingly, there is a risk of financial loss in the event that a counterparty fails to discharge its obligation. For transactions that are financially significant, Vermilion reviews third-party credit ratings and may require additional forms of security. Cash held on behalf of the Company by financial institutions is also subject to credit risk.

Currency risk:
Vermilion conducts business in currencies other than Canadian dollars and accordingly is subject to currency risk associated with changes in foreign exchange rates in relation to cash and cash equivalents, receivables, payables and derivative assets and liabilities. The impact related to working capital is somewhat mitigated as a result of the offsetting effects of foreign exchange fluctuations on assets and liabilities. Vermilion monitors its exposure to currency risk and reviews whether the use of derivative financial instruments is appropriate to manage potential fluctuations in foreign exchange rates.

Commodity price risk:
Vermilion uses financial derivatives as part of its risk management program associated with the effects of changes in commodity prices on future cash flows. Changes in the underlying commodity prices impact the fair value and future cash flows related to these derivatives.

Interest rate risk:
Vermilion's debt is comprised of short-term bankers acceptances that bear interest at market rates plus applicable margins and senior unsecured notes with a fixed interest rate. Accordingly, Vermilion's exposure to interest rate risk in relation to its long-term debt at the balance sheet date is not material.

Liquidity risk:
Liquidity risk is the risk that Vermilion will encounter difficulty in meeting obligations associated with its financial liabilities. Vermilion does not consider this to be a significant risk as its financial position and available committed borrowing facility provide significant financial flexibility and allow Vermilion to meet its obligations as they come due.

The nature of these risks and Vermilion's strategy for managing these risks has not changed significantly from the prior period.

Summarized Quantitative Data Associated with the Risks Arising from Financial Instruments

Credit risk:
As at December 31, 2011, Vermilion's maximum exposure to receivable credit risk was $177.0 million (December 31, 2010 - $158.5 million) which is the aggregate value of receivables and derivative assets at the balance sheet date. Vermilion's receivables are due from counterparties that have investment grade third party credit ratings or, in the absence of the availability of such ratings, have been satisfactorily reviewed by Vermilion for creditworthiness. Additionally, cash and cash equivalents consist of moneys on deposit and short-term investments which may be subject to counterparty credit risk. Vermilion mitigates this risk by transacting with North American institutions with high third party credit ratings.

As at the balance sheet date the amount of financial assets that were past due or impaired was not material.

Liquidity risk:
The following table summarizes Vermilion's undiscounted non-derivative financial liabilities and their contractual maturities as at December 31, 2011 and December 31, 2010:

($M)	Due in one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and not later than five years
December 31, 2011	115,594	206,777	131,002	377,087
December 31, 2010	88,296	163,110	17,823	438,371

Vermilion's derivative financial instruments settle on a monthly basis.

21. FINANCIAL INSTRUMENTS (Continued)

Market risk:
Vermilion is 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 year ended December 31, 2011 and 2010 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	December 31, 2011 Before tax effect on comprehensive income (decrease) increase
Currency risk - Euro to Canadian	**Increase** in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on December 31, 2011	(1,825)
	Decrease in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on December 31, 2011	1,825
Currency risk - US $ to Canadian	**Increase** in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on December 31, 2011	6,035
	Decrease in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on December 31, 2011	(6,035)
Currency risk - AUD $ to Canadian	**Increase** in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on December 31, 2011	(59)
	Decrease in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on December 31, 2011	59
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 December 31, 2011	(6,964)
	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 December 31, 2011	6,372

Risk ($M except per bbl)	Description of change in risk variable	December 31, 2010 Before tax effect on comprehensive income (decrease) increase
Currency risk - Euro to Canadian	**Increase** in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on December 31, 2010	(2,473)
	Decrease in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on December 31, 2010	2,473
Currency risk - US $ to Canadian	**Increase** in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on December 31, 2010	2,527
	Decrease in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on December 31, 2010	(2,527)
Currency risk - AUD $ to Canadian	**Increase** in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on December 31, 2010	773
	Decrease in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on December 31, 2010	(773)
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 December 31, 2010	(11,440)
	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 December 31, 2010	9,950

Reasonably possible changes in interest rates and natural gas prices would not have had a material impact on comprehensive income for the periods ended December 31, 2011 or 2010.

22. RELATED PARTY DISCLOSURES

The compensation of directors and management are reviewed annually by the independent Governance and Human Resources Committee against industry practices for oil and gas companies of similar size and scope.

The following table summarizes the compensation of directors and other members of key management personnel during the years ended December 31, 2011 and December 31, 2010:

	Year Ended	
($M)	**Dec 31, 2011**	**Dec 31, 2010**
Short-term benefits	**5,185**	5,889
Share-based payments	**10,616**	7,662
	15,801	13,551
Number of individuals included in the above amounts	**15**	15

23. WAGES AND BENEFITS

Included in operating expenses and general and administrative expenses are $37.8 million and $29.8 million of wages and benefits, respectively (2010 – $33.2 million and $25.9 million, respectively).

24. SUBSEQUENT EVENT

On January 24, 2012, Vermilion completed purchase and sale agreements with Total E&P France whereby Vermilion, through its wholly owned subsidiaries, acquired certain working interests in six producing fields located in the Paris and Aquitaine basins in France. Taking into consideration an effective date of January 1, 2011 and customary closing adjustments, Vermilion paid approximately $107 million cash at closing. Vermilion financed this acquisition through proceeds received from the November 2011 equity issuance.

25. TRANSITION TO IFRS

For all periods up to and including the year ended December 31, 2010, Vermilion prepared its consolidated financial statements in accordance with Generally Accepted Accounting Principles as issued by the Canadian Accounting Standards Board (“Previous GAAP”). The consolidated financial statements for the year ended December 31, 2011 are the first financial statements presented under IFRS. IFRS 1 “First-time Adoption of International Financial Reporting Standards” requires an entity to issue an explicit and unreserved statement of compliance with its first annual financial statements prepared under IFRS.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which Vermilion began applying IFRS was January 1, 2010, its transition date. IFRS 1 requires that a first time adopter use the same accounting policies in its opening IFRS balance sheet and for all subsequent periods presented in its first IFRS financial statements. The adoption of IFRS includes full retrospective application of all IFRS standards which are effective at the end of its first IFRS reporting period, which for Vermilion is the year ended December 31, 2011. In order to facilitate an effective adoption of IFRS there are a number of discretionary exemptions as well as mandatory exceptions from retrospective application of a number of IFRS standards.

25. TRANSITION TO IFRS (Continued)

Exceptions to restatement under IFRS 1

Vermilion is subject to the following mandatory exceptions to restatement under IFRS.

1. Estimates
The estimates made under Previous GAAP are required to be applied to the balances in accordance with IFRS unless there is evidence that the estimates were in error or to reflect any adjustments made to accounting policies to comply with IFRS. The only significant change in estimate as at the date of transition related to the calculation of the present value of Vermilion's asset retirement obligations, which resulted from differing requirements between Previous GAAP and IFRS.

2. Derecognition of financial instruments
A first-time adopter shall apply the requirements within IAS 39 "Financial instruments – recognition and measurement" prospectively from the transition date unless it chooses to apply the derecognition guidance retrospectively from a date of its election. Vermilion has elected to apply derecognition of financial instruments prospectively from the transition date. Based on the election there were no significant adjustments required as a result of derecognition.

3. Non-controlling interests
At the date of transition, IFRS prescribes that certain requirements of IAS 27 "Consolidated and separate financial statements" be applied prospectively. As Vermilion had no outstanding instruments which were accounted for as a non-controlling interest there was no impact of this exception under IFRS.

Exemptions from restatement

1. Business combinations
A first-time adopter may elect to not apply IFRS 3 "Business combinations" retrospectively to past business combinations. Vermilion is electing to not apply IFRS 3 retrospectively to business combinations that occurred prior to the transition date. The exemption for past business combinations also applies to past acquisitions of investments in associates and of interests in joint ventures. Furthermore, the date selected for transition applies equally for all such acquisitions. As such, Vermilion is electing not to apply IFRS 3 to past investments in associates and joint ventures prior to the transition date.

2. Foreign currency translation
A first-time adopter may elect to not retrospectively apply IAS 21 "The effects of changes in foreign exchange rates". Under this exemption, the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition, and any resulting gains or losses on a subsequent disposal of a foreign operation will then exclude translation differences that arose before the date of transition to IFRS and include only translation differences arising subsequent to the transition date. Vermilion has elected to utilize the exemption pertaining to the cumulative translation differences and as a result there is a nil balance in cumulative translation adjustments upon the date of transition to IFRS.

3. Oil & gas deemed cost exemption
Under Previous GAAP, exploration and development costs for oil and gas properties in the development or production phases are accounted for in cost centres that include all properties in a country. A first-time adopter using full cost accounting may elect to measure oil and gas assets at the date of transition to IFRS on the following basis:

a) E&E assets at the amount determined under the entity's previous GAAP; and
b) Assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity shall allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.

In addition, the entity shall test E&E assets and assets in the development and production phases for impairment at the date of transition to IFRS in accordance with IFRS 6 "Exploration for and evaluation of mineral resources" or IAS 36 "Impairment of assets", respectively and, if necessary, reduce the amount determined in accordance with (a) or (b) above. Oil and gas assets comprise only those assets used in the exploration, evaluation, development or production of oil and gas.

Vermilion elected to measure oil and gas assets using the exemption permitted by IFRS 1 and therefore allocated the development and production phase assets based on reserve values as at the transition date. There was no impairment as at the transition date.

25. TRANSITION TO IFRS (Continued)

4. Asset retirement obligations
A first-time adopter that utilizes the oil and gas deemed cost exemption above shall measure asset retirement obligations at the transition date in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets". Any difference between the remeasured amount in accordance with IFRS and the carrying amount of those liabilities at the date of transition to IFRS determined under the entity's previous GAAP is recognized directly in retained earnings. The impact of the remeasurement of asset retirement obligations is disclosed in 26 (f).

5. Borrowing costs
A first-time adopter may apply the transitional provisions set out in IAS 23 "Borrowing costs", as revised in 2007. IAS 23 "Borrowing costs" transitional provisions should be interpreted to be January 1, 2009 or the date of transition to IFRS, whichever is later. Vermilion elected to apply the transitional provisions set out in IAS 23 and elected the transition date to be its date of application of IAS 23. There was no impact pursuant to the application of this exemption.

6. Share-based payment transactions
A first-time adopter is encouraged, but not required, to apply IFRS 2 "Share-based payment" to liability instruments that were granted after November 7, 2002 and vested or settled at the later of the date of transition to IFRS and January 1, 2005. Vermilion elected to apply IFRS 2 as at the transition date and applied IFRS 2 for all liabilities arising from share-based payment transactions that existed at that date.

EFFECT OF TRANSITION ON THE CONSOLIDATED BALANCE SHEET

		Year ended December 31, 2010		
($M)	**Note 26**	**Previous GAAP**	**Transition to IFRS**	**IFRS**
ASSETS				
Current				
Cash and cash equivalents		160,755	-	**160,755**
Accounts receivable		147,329	-	**147,329**
Crude oil inventory		10,707	-	**10,707**
Derivative instruments		10,249	-	**10,249**
Prepaid expenses		11,157	-	**11,157**
Deferred taxes	a	2,902	(2,902)	**-**
		343,099	(2,902)	**340,197**
Derivative instruments		942	-	**942**
Deferred taxes	a	151,477	(3,528)	**147,949**
Exploration and evaluation assets	e	-	17,157	**17,157**
Goodwill	j	51,589	(51,589)	**-**
Capital assets	b,e,f,j	2,034,609	(215,057)	**1,819,552**
		2,581,716	(255,919)	**2,325,797**
LIABILITIES				
Current				
Accounts payable and accrued liabilities	a	253,086	(767)	**252,319**
Dividends payable		16,910	-	**16,910**
Derivative instruments	i	12,143	-	**12,143**
Income taxes payable	a	58,795	767	**59,562**
		340,934	-	**340,934**
Derivative instruments	i	1,767	6,390	**8,157**
Long-term debt		302,558	-	**302,558**
Amount due pursuant to acquisition		114,349	-	**114,349**
Asset retirement obligations	f	274,560	(7,171)	**267,389**
Deferred taxes	a	246,982	(474)	**246,508**
		1,281,150	(1,255)	**1,279,895**
SHAREHOLDERS' EQUITY				
Shareholders' capital		1,045,930	(20,160)	**1,025,770**
Contributed surplus	d	39,841	885	**40,726**
Accumulated other comprehensive loss	b	-	(31,577)	**(31,577)**
Retained earnings		214,795	(203,812)	**10,983**
		1,300,566	(254,664)	**1,045,902**
		2,581,716	(255,919)	**2,325,797**

25. TRANSITION TO IFRS (Continued)

EFFECT OF TRANSITION ON THE CONSOLIDATED STATEMENT OF NET EARNINGS AND COMPREHENSIVE INCOME

		Year Ended December 31, 2010		
($M)	**Note 26**	**Previous GAAP**	**Transition to IFRS**	**IFRS**
REVENUE				
Petroleum and natural gas sales		727,805	-	**727,805**
Royalties	a	(83,509)	39,537	**(43,972)**
Petroleum and natural gas revenue		644,296	39,537	**683,833**
EXPENSES				
Operating		144,595	-	**144,595**
Transportation		26,698	-	**26,698**
Equity based compensation	d	28,170	6,406	**34,576**
Loss on derivative instruments	i	3,906	3,013	**6,919**
Interest expense		13,370	-	**13,370**
General and administration		42,842	-	**42,842**
Foreign exchange (gain) loss	b	(26,132)	61,091	**34,959**
Other expense		2,469	-	**2,469**
Accretion	f	-	17,903	**17,903**
Depletion and depreciation	e	271,556	(87,936)	**183,620**
Impairment	j	-	19,840	**19,840**
		507,474	20,317	**527,791**
EARNINGS BEFORE INCOME TAXES AND OTHER ITEMS		136,822	19,220	**156,042**
INCOME TAXES				
Deferred	a	(55,383)	23,663	**(31,720)**
Current	a	72,701	39,537	**112,238**
		17,318	63,200	**80,518**
OTHER ITEMS				
Remeasurement loss on liability associated with exchangeable shares	c	-	31,129	**31,129**
Non-controlling interest - exchangeable shares	c	8,241	(8,241)	**-**
NET EARNINGS		111,263	(66,868)	**44,395**
OTHER COMPREHENSIVE LOSS				
Currency translation adjustments	b	-	(31,577)	**(31,577)**
COMPREHENSIVE INCOME		111,263	(98,445)	**12,818**
NET EARNINGS PER SHARE OR UNIT				
Basic		1.34	(0.81)	**0.53**
Diluted		1.32	(0.79)	**0.53**

25. TRANSITION TO IFRS (Continued)

EFFECT OF TRANSITION ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

		Year Ended December 31, 2010		
($M)	**Note 26**	**Previous GAAP**	**Transition to IFRS**	**IFRS**
OPERATING				
Net earnings		111,263	(66,868)	**44,395**
Adjustments:				
Accretion	f	-	17,903	**17,903**
Depletion and depreciation	e	271,556	(87,936)	**183,620**
Impairment	j	-	19,840	**19,840**
Unrealized loss on derivative instruments	i	17,060	(2,945)	**14,115**
Equity based compensation	d	28,170	6,406	**34,576**
Unrealized foreign exchange (gain) loss	b	(20,509)	61,091	**40,582**
Non-controlling interest exchangeable shares	c	8,241	(8,241)	**-**
Remeasurement loss on liability associated with exchangeable shares	c	-	31,129	**31,129**
Unrealized other expense		3,089	-	**3,089**
Deferred taxes	a	(55,383)	23,663	**(31,720)**
		363,487	(5,958)	**357,529**
Asset retirement obligations settled		(6,861)	-	**(6,861)**
Changes in non-cash operating working capital		64,656	5,958	**70,614**
Cash flows from operating activities		421,282	-	**421,282**
INVESTING				
Drilling and development	e	(432,182)	18,030	**(414,152)**
Exploration and evaluation	e	-	(18,030)	**(18,030)**
Property acquisitions	i	(6,655)	6,207	**(448)**
Sale of short-term investments		64,126	-	**64,126**
Withdrawals from reclamation fund		812	-	**812**
Changes in non-cash investing working capital	i	14,073	(6,207)	**7,866**
Cash flows used in investing activities		(359,826)	-	**(359,826)**
FINANCING				
Increase in long-term debt		142,700	-	**142,700**
Issuance of shares or units pursuant to the dividend or distribution reinvestment plans		40,824	-	**40,824**
Cash dividends or distributions		(187,943)	-	**(187,943)**
Cash flows used in financing activities		(4,419)	-	**(4,419)**
Foreign exchange loss on cash held in foreign currencies		(11,243)	-	**(11,243)**
Net change in cash and cash equivalents		45,794	-	**45,794**
Cash and cash equivalents, beginning of year		114,961	-	**114,961**
Cash and cash equivalents, end of year		160,755	-	**160,755**
Supplementary information for operating activities – cash payments				
Interest paid		13,585	-	**13,585**
Income taxes paid	a	16,272	40,494	**56,766**

25. TRANSITION TO IFRS (Continued)

EFFECT OF TRANSITION ON THE CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (UNITHOLDERS') EQUITY

($M)	Note 26	Shareholders' or Unitholders' Capital	Contributed Surplus	Accumulated Comprehensive Loss	Retained Earnings	Total Shareholders' or Unitholders' Equity
Balance per Previous GAAP as at January 1, 2010		711,667	30,413	-	297,210	1,039,290
Transition adjustments:						
Deferred tax adjustments	a	-	-	-	(31,159)	(31,159)
Retranslation of capital assets	b	-	-	-	3,573	3,573
Remeasurement of exchangeable shares	c	-	-	-	(117,168)	(117,168)
Differences in equity based compensation	d	-	(30,413)	-	106	(30,307)
Remeasurement of asset retirement obligation	f	-	-	-	13,105	13,105
Initial recognition of derivative instrument	i	-	-		(9,335)	(9,335)
Balance per IFRS as at January 1, 2010		711,667	-	-	156,332	867,999
Balance per Previous GAAP as at December 31, 2010		1,045,930	39,841	-	214,795	1,300,566
Transition adjustments (see above):		-	(30,413)	-	(140,878)	(171,291)
Comparative period adjustments:						
Remeasurement of shares issued for exchangeable shares	c	(21,642)	-	-	-	(21,642)
Differences in equity based compensation	d	1,482	31,298	-	3,934	36,714
Difference in net earnings for the year		-	-	-	(66,868)	(66,868)
Currency translation adjustment	b	-	-	(31,577)	-	(31,577)
Balance per IFRS as at December 31, 2010		1,025,770	40,726	(31,577)	10,983	1,045,902

EFFECT OF TRANSITION ON NET EARNINGS AND COMPREHENSIVE INCOME

($M)	Note 26	Year Ended December 31, 2010
Net earnings and comprehensive income - Previous GAAP		111,263
Increase in equity based compensation expense	d	(6,406)
Increase in loss on derivative instruments	i	(3,013)
Increase in unrealized foreign exchange loss	b	(61,091)
Decrease in accretion expense	f	250
Decrease in depletion and depreciation	e	69,783
Decrease in deferred income tax recovery	a	(23,663)
Goodwill impairment	j	(19,840)
Reversal of non-controlling interest - exchangeable shares	c	8,241
Remeasurement loss on liability associated with exchangeable shares	c	(31,129)
Net earnings - IFRS		44,395
Currency translation adjustments	b	(31,577)
Comprehensive income - IFRS		12,818

26. EXPLANATION OF TRANSITION TO IFRS

a. Deferred taxes
Under Previous GAAP deferred tax assets and liabilities were classified between current and non-current portions based on the nature of the balances upon which the temporary differences were related. IAS 1 "Presentation of financial statements" requires that all recorded deferred taxes be classified as non-current.

Deferred tax adjustments also resulted from changes in the carrying values of capital assets and asset retirement obligations which resulted in changes to the temporary differences associated with those balances. The adjustments in the temporary differences to comply with IFRS resulted in adjustments to retained earnings and net earnings for the opening balance sheet and subsequent period balance sheets, respectively.

In addition, PRRT was classified as a royalty expense under Previous GAAP. Under IFRS, this item is considered a component of current taxes and the related payables and expenses have been reclassified in the balance sheet and consolidated statement of net earnings, respectively, to reflect this change. As there are timing differences in the deductibility of certain expenditures for PRRT purposes as compared to the IFRS accounting, there were additional deferred tax adjustments which resulted from the change to account for PRRT as an income tax. The adjustments to deferred taxes required to record PRRT as an income tax were recorded to retained earnings and net earnings for the opening balance sheet and subsequent period balance sheets, respectively.

b. Foreign currency translation
Under Previous GAAP, Vermilion concluded that the functional currency of its foreign operating subsidiaries was the Canadian dollar. As a result of differences in the guidance for functional currency determination, Vermilion has concluded that under IFRS the functional currency of its foreign operating subsidiaries is their respective local currencies. As a consequence of this change, gains and losses related to the translation of the financial statements of these subsidiaries are recorded through other comprehensive income (loss) and do not impact net earnings until a disposal or partial disposal of a foreign operation. In addition, the capital asset accounts of Vermilion's foreign operating subsidiaries are now translated to Canadian dollars at the foreign exchange rates in effect at the balance sheet date whereas, under Previous GAAP, these capital asset accounts were translated at historical foreign exchange rates. Due to the election to not retrospectively apply IAS 21 "The effects of changes in foreign exchange rates", the results of the restatement of capital assets to the period end foreign exchange rates was recorded as an adjustment to retained earnings. The translation of all balances denominated in foreign currencies resulted in an adjustment at each period from net earnings to other comprehensive income (loss).

c. Exchangeable shares
Under Previous GAAP, pursuant to EIC 151 "Exchangeable shares issued by subsidiaries of income trusts" Vermilion classified the outstanding exchangeable shares as non-controlling interest. Under Previous GAAP, the balance in non-controlling interest was adjusted for the conversion of exchangeable shares for trust units and the portion of net earnings attributable to holders of exchangeable shares.

Under IFRS, pursuant to IAS 32 "Financial instruments: presentation" exchangeable shares outstanding were classified as financial liabilities and recorded based on the redemption value of the underlying trust units. The adjustment to recognize the liability associated with exchangeable shares in accordance with IFRS resulted in the elimination of the non-controlling interest balance and an adjustment to retained earnings. Subsequent to the transition date, adjustments to reflect the remeasurement of the liability associated with exchangeable shares at each reporting period to the redemption amount were recorded in net earnings in the respective periods. Upon conversion to a corporation the liability was extinguished at the corporate conversion date redemption value and the carrying value was reclassified to shareholders' capital.

d. Equity based compensation
Under Previous GAAP, Vermilion's TAP Plan was accounted for as an equity settled plan with the value of the awards accumulating in contributed surplus until vested. The awards vested based on the fair value upon issuance and were amortized based on the vesting period of the awards. Under IFRS, the TAP Plan was reclassified to a liability settled plan due to the redemption features which were implicit in the underlying trust units. The balance under Previous GAAP which had been accumulated in contributed surplus was reclassified to equity based compensation liability with the difference between the value of the awards upon the date of transition and the amount in contributed surplus recorded to retained earnings. Subsequent to the date of transition, the awards outstanding were remeasured with the gains and losses recorded to equity based compensation expense. Upon conversion to a corporation, the TAP plan was replaced by the VIP plan which is accounted for as an equity settled plan and accordingly, the balance within the equity based compensation liability was reclassified to contributed surplus.

e. Property, plant and equipment
Under Previous GAAP, PNG assets were carried at cost using the full cost method of accounting. The costs were accumulated and depleted at a country level using proven reserves. Under IFRS, the initially recognized cost on adoption was the balance under Previous GAAP, allocated to depletion units based upon reserve value as at the transition date. Costs associated with PNG assets from the transition date onward are accumulated at the level of a depletion unit and depleted based on proven and probable reserves. Due to the use of proven and probable reserves, the depletion recorded under IFRS is lower than the amount recorded for the same period under Previous GAAP. IFRS requires that E&E assets are presented separately in the consolidated balance sheets; under Previous GAAP, these assets were included within capital assets.

26. EXPLANATION OF TRANSITION TO IFRS (Continued)

f. Asset retirement obligations

The basic fundamental premise underlying the accounting for asset retirement obligations is consistent between Previous GAAP and IFRS, however under IFRS, the liability is remeasured at each reporting date using the pre-tax discount rate that reflects current market assessment of time value of money and risks specific to the liabilities that have not been reflected in the cash flow estimates. As Vermilion elected to use the IFRS 1 deemed cost accounting exemption noted above, upon transition Vermilion recognized its asset retirement obligations based on the measurement in accordance with IFRS and recorded the differences against retained earnings. Subsequent to the transition date, the asset retirement obligations were remeasured to reflect changes in the discount rate at each reporting period and the revised accretion expense under IFRS. The adjustments for the discount rate and accretion expense were recorded to PNG assets and net earnings, respectively. At the transition date, Vermilion recalculated the present value of the obligations using discount rates between 7.4% and 9.4% and inflation rates between 1.4% and 2.6%. Under previous GAAP, Vermilion used a credit adjusted risk free rate of 8% and inflation rates between 1.4% and 2.6%.

g. Revenue

Under Previous GAAP, royalties on production were included as royalty expense on the consolidated statement of earnings. Under IFRS, revenue is presented net of royalties when the royalty relates directly to the produced volume and does not relate to a net profit interest by the governing body. Accordingly, under IFRS, Vermilion now presents revenue net of royalties. This change in presentation did not have an impact on the opening balance sheet presented in accordance with IFRS. The statement of net earnings for all periods presented subsequent to the date of transition to IFRS reflect this change.

h. Cash flow statements

The statement of cash flows prepared under IAS 7 “Statement of cash flows” present cash flows in the same manner as under Previous GAAP. Other than reclassifications between net earnings and the adjustments to compute cash flows from operating activities there were no material changes to the statement of cash flows.

i. Derivative instruments

Prior to the transition date, Vermilion completed a business combination that included a contingent consideration arrangement which is dependent upon the price of oil. Under Previous GAAP, contingent payments made under this arrangement were accounted for as additional consideration. Although Vermilion has elected to not restate past business combinations, the contingent payment, outstanding at the date of transition, is subject to remeasurement under IFRS 3 “Business combinations” and accordingly the contingent payment is accounted for as a derivative liability with changes in the estimated fair value recorded at each period end through earnings. Upon transition to IFRS the initial recognition of the contingent payment was recorded to derivative liability and retained earnings.

j. Goodwill

Under Previous GAAP Vermilion tested impairment at the level of a reporting unit, which for the year ended December 31, 2010 and prior periods related to assets in Canada. Under IFRS the testing of goodwill was performed by allocating the goodwill where possible to the CGU’s upon which the goodwill value is attributable. As a result of the impairment testing under IFRS for the year ended December 31, 2010, the balance of goodwill was identified as being impaired and was charged to net earnings in that year. The transition to IFRS therefore resulted in an adjustment to goodwill and a decrease to net earnings of $19.8 million in the year ended December 31, 2010.

The remaining adjustment to goodwill in the 2010 comparable period resulted from the reversal of the exchangeable share conversion under Previous GAAP. Under Previous GAAP, the conversion of exchangeable shares was recorded as an acquisition of non-controlling interest at fair value; and the fair value of the common shares issued in consideration for the non-controlling interest represented by the exchangeable shares was $270.6 million. The difference between the recorded fair value and the carrying value of the non-controlling interest of $109.0 million resulted in increases to capital assets of $189.9 million, goodwill of $31.7 million and future income tax liability of $60.0 million. The accounting for the exchangeable shares under IFRS is discussed in above.

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

ANNUAL GENERAL MEETING

May 4, 2012 at 10:00 a.m.
The Ballroom
Metropolitan Centre
333 – 4th Avenue S.W.
Calgary, Alberta

OFFICERS AND KEY PERSONNEL

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

John D. Donovan, F.C.A.
Executive Vice President Business Development

Curtis W. Hicks, C.A.
Executive Vice President & CFO

G. R. (Bob) Mac Dougall, P.Eng.
Executive Vice President & COO

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

Raj C. Patel, P.Eng.
Vice President Marketing

Daniel Goulet, P.Eng.
Director Production and Operations

Cameron A. Hercus, MSc
Director Exploitation and New Growth

Dean N. Morrison, CFA
Director Investor Relations

Gerardo Rivera
Director Strategy and Portfolio Management

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

Paul L. Beique
Investor Relations

EUROPE
Peter Sider, P.Eng.
Vice President European Operations

David Burghardt, P.Eng.
Director Exploitation

Scott Ferguson, P.Eng.
Director European Operations

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

AUDITORS
Deloitte & Touche LLP
Calgary, Alberta

BANKERS
The Toronto-Dominion Bank
Calgary, Alberta

Bank of Montreal
Calgary, Alberta

BNP Paribas (Canada)
Toronto, Ontario

Royal Bank of Canada
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

National Bank of Canada
Calgary, Alberta

Citibank N.A., Canadian Branch
Calgary, Alberta

EVALUATION ENGINEERS
GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL
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

3500, 520 - 3rd Avenue S.W.
Calgary, Alberta T2P 0R3
403.269.4884 Telephone | 403.476.8100 Facsimile | 1.866.895.8101 Investor Relations Toll Free
www.vermilionenergy.com | investor_relations@vermilionenergy.com

EXHIBIT 99.4

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the use of our reports dated March 1, 2012 relating to the consolidated financial statements of Vermilion Energy Inc. and the effectiveness of Vermilion Energy Inc.'s internal control over financial reporting appearing in this Annual Report on Form 40-F of Vermilion Energy Inc. for the year ended December 31, 2011.

"/s/ Deloitte & Touche LLP"

Independent Registered Chartered Accountants
Calgary, Canada
March 12, 2012

EXHIBIT 99.5

CONSENT OF INDEPENDENT ENGINEERS

We hereby consent to the use of and reference to our name and our reports, and the inclusion of information derived from our reports, evaluating Vermilion Energy Inc.'s petroleum and natural gas reserves as at December 31, 2011, in this Annual Report on Form 40-F of Vermilion Energy Inc.

Yours very truly,

("GLJ Petroleum Consultants Ltd.")

GLJ Petroleum Consultants Ltd.
4100, 400 - 3rd Avenue S.W.,
Calgary, Alberta, Canada T2P 4H2
(403) 266-9500 Fax (403) 262-1855

March 12, 2012

EXHIBIT 99.6

VERMILION ENERGY INC.
CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Lorenzo Donadeo, certify that:

1. I have reviewed this annual report on Form 40-F of Vermilion Energy Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 12, 2012

("Lorenzo Donadeo")
[Signature]

Lorenzo Donadeo, Chief Executive Officer

EXHIBIT 99.6

VERMILION ENERGY INC.
CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Curtis Hicks, certify that:

1. I have reviewed this annual report on Form 40-F of Vermilion Energy Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 12, 2012

("Curtis Hicks")
[Signature]

Curtis Hicks, Chief Financial Officer

EXHIBIT 99.7

VERMILION ENERGY INC.
CERTIFICATE OF THE CHIEF EXECUTIVE OFFICER

Pursuant to Section 906(a) of the Sarbanes-Oxley Act of 2002
Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18 of the United States Code

In connection with the annual report of Vermilion Energy Inc. (the "Corporation") on Form 40-F for the fiscal year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lorenzo Donadeo, Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Dated at Calgary, Alberta, Canada this 12th day of March 2012.

("Lorenzo Donadeo")
LORENZO DONADEO, CHIEF EXECUTIVE OFFICER

EXHIBIT 99.7

VERMILION ENERGY INC.
CERTIFICATE OF THE CHIEF FINANCIAL OFFICER

Pursuant to Section 906(a) of the Sarbanes-Oxley Act of 2002
Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18 of the United States Code

In connection with the annual report of Vermilion Energy Inc. (the "Corporation") on Form 40-F for the fiscal year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Curtis Hicks, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Dated at Calgary, Alberta, Canada this 12th day of March 2012.

("Curtis W. Hicks")
CURTIS W. HICKS, CHIEF FINANCIAL OFFICER