

Vermilion Energy Inc. ("Vermilion" or the "Company") (TSX – VET) is pleased to report interim operating and unaudited financial results for the three and nine months ended September 30, 2011.

### Third Quarter Highlights:

- Recorded production of 34,676 boe/d in the third quarter of 2011, compared to 35,219 boe/d in the second quarter of 2011 and 31,298 boe/d in the third quarter of 2010. The modest decrease in production relative to the second quarter of 2011 was the result of significant operational downtime in the Netherlands, Australia and France related to planned maintenance activities and unplanned outages in the third quarter of 2011. Vermilion achieved an 11% year over year increase in production as compared to the third quarter of 2010, mainly attributable to increased production volumes related to drilling activities in Australia late in 2010, the continued development of the Cardium resource play in Canada and incremental production additions from the Vlieland zone of the Vinkega-1 discovery in the Netherlands. Protracted unitization negotiations have resulted in a deferral of approximately 1,000 boe/d of incremental production volumes from the Rotliegend zone of the Vinkega-1 well in the Netherlands until early 2012. As a result of this deferral, in addition to weather related completions delays in Canada during the third quarter, the Company currently expects full year production volumes for 2011 to be at the lower end of its original 2011 production guidance of 35,000 to 36,000 boe/d. The Company's production growth remains on track to reach the targeted exit rate for 2011 of approximately 37,000 boe/d.
- Generated fund flows from operations for the third quarter of 2011 of \$116.4 million (\$1.29 per share), compared to \$119.3 million (\$1.32 per share) in the second quarter of 2011. Modestly lower production volumes and a decrease in realized pricing contributed to the quarter over quarter decrease, which was partially offset by the reduction in income taxes resulting from lower revenues. With the implementation of International Financial Reporting Standards, reported cash taxes now include Petroleum Resource Rent Tax in Australia, which was previously recorded as royalty expense.
- Remained focused on the development of its Cardium light oil play in western Canada during the quarter following completion of a 15,000 bbls/d oil processing facility, which was commissioned effective August 2, 2011. While difficult weather conditions during the third quarter led to delays in the completion and tie-in of Cardium related production volumes, the Company remains on target to exit 2011 with Cardium related production of more than 6,000 boe/d. During the third quarter of 2011, Vermilion drilled 14 (11.7 net) new operated Cardium wells.
- Initiated a four (2.3 net) well drilling program in the Netherlands with two (1.4 net) wells drilled during the third quarter. Vermilion anticipates drilling the remaining two (0.9 net) wells and completing testing operations during the fourth quarter of 2011. Vermilion continued ongoing partner negotiations related to production from the Rotliegend zone of the Vinkega-1 well in the Netherlands. Protracted unitization negotiations have resulted in a deferral of production, originally anticipated in September 2011. Based on the current state of negotiations, the Company currently expects to add production from the Rotliegend zone in early 2012.
- Total spending of \$134.8 million for the third quarter of 2011 included \$35 million (approximately \$70 million up to October 2011) in land purchases related to Vermilion's ongoing New Growth Initiatives focused on identifying and capturing meaningful unconventional resource related exploration exposure in Canada, Europe and Australia.
- Net debt increased by \$32.8 million to \$467.4 million for the period ending September 30, 2011, which represents approximately 1.0 times annualized third quarter fund flows from operations. Vermilion's balance sheet continues to remain strong with approximately \$612.0 million of remaining borrowing capacity against its \$800 million revolving credit facility at the end of the third quarter.
- Subsequent to the third quarter, existing appeals in Ireland's commercial courts with respect to certain aspects of the regulatory approvals received for the Corrib project were dismissed following a negotiated settlement between the complainants and state authorities.
- Vermilion continued to perform well during the third quarter despite turbulent market conditions and has proved to be a good defensive investment having remained relatively flat with a total return to investors, for the nine month period ending September 30, 2011, of -1.0% compared to a peer group average, excluding Vermilion, of -12.3% for the same period.

## DISCLAIMER

Certain statements included or incorporated by reference in this document may constitute forward looking statements under applicable securities legislation. Forward looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward looking statements or information in this document may include, but are not limited to:

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

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

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

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

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

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

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

## HIGHLIGHTS

Financial (\$M except share and per share amounts)	Three Months Ended		Nine Months Ended	
	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Petroleum and natural gas sales	\$ 248,361	\$ 172,253	\$ 756,398	\$ 511,379
Fund flows from operations	116,369	92,928	337,453	259,367
Per share, adjusted basic	1.29	1.05	3.75	2.95
Capital expenditures	134,781	106,993	338,529	326,747
Acquisitions	-	(173)	38,101	448
Net debt			467,367	237,952
Asset retirement obligations settled	4,269	939	15,512	1,751
Cash dividends per share	0.57	0.57	1.71	1.71
Dividends declared	51,612	47,583	153,975	139,080
Less: Issuance of shares pursuant to the dividend reinvestment plan	(15,219)	(10,524)	(42,279)	(27,357)
Net dividends	36,393	37,059	111,696	111,723
% of fund flows from operations declared, gross	44%	51%	46%	54%
% of fund flows from operations declared, net	31%	40%	33%	43%
Total net dividends, capital expenditures and asset retirement obligations settled	\$ 175,443	\$ 144,991	\$ 465,737	\$ 439,409
% of fund flows from operations	151%	156%	138%	169%
% of fund flows from operations (excluding capital expenditures and asset retirement obligations settled on the Corrib project)	132%	125%	122%	145%
Shares outstanding				
Basic			90,675,152	88,651,035
Diluted			92,814,645	90,193,844
Weighted average shares outstanding				
Adjusted basic			89,954,939	87,985,918
Adjusted diluted			91,241,324	88,692,329
Share trading				
High			\$ 52.45	\$ 38.90
Low			\$ 40.30	\$ 31.25
Close			\$ 44.04	\$ 38.62
<b>Operations</b>				
Production				
Crude oil (bbls/d)	20,464	17,658	20,602	17,436
Natural gas liquids (bbls/d)	1,369	1,360	1,369	1,479
Natural gas (mcf/d)	77,056	73,678	76,442	72,890
Boe/d (6:1)	34,676	31,298	34,711	31,063
Average reference price				
WTI (US \$/bbl)	\$ 89.76	\$ 76.20	\$ 95.48	\$ 77.65
Dated Brent (US \$/bbl)	113.46	76.86	111.93	77.13
AECO (\$/mcf)	3.66	3.54	3.76	4.13
Foreign exchange rate (US \$/CDN \$)	1.02	0.96	1.02	0.97
Foreign exchange rate (Euro/CDN \$)	0.72	0.74	0.73	0.73
Average selling price				
Crude oil and NGLs (\$/bbl)	100.71	76.62	104.26	77.76
Natural gas (\$/mcf)	6.50	5.64	6.28	5.52
Netbacks per boe (6:1)				
Operating netback	49.85	41.30	50.35	39.68
Fund flows netback	36.46	32.26	35.62	30.56
Operating expenses	\$ 13.57	\$ 12.51	\$ 12.86	\$ 12.38

The above table includes non-GAAP measures which may not be comparable to other companies. Please see "Non-GAAP Measures" section of Management's Discussion and Analysis.

## OUTLOOK

Vermilion continues to focus on delivering the operational and financial objectives in its strategic plan by growing production through the organic development of its diverse portfolio of opportunities. Light oil production from the Cardium resource play in western Canada and high-netback natural gas production in the Netherlands is expected to drive this growth in the near term. Stable production from Australia and France is expected to underpin this growth and deliver strong fund flows from operations, while the Corrib gas project will add significant volumes upon achieving first gas.

Vermilion's Canadian development program remains focused on the Cardium light oil resource play. Cardium related production at the end of the third quarter of 2011 was approximately 4,000 boe/d. Despite weather related completions delays during the third quarter, Vermilion anticipates exiting 2011 with Cardium related production volumes of more than 6,000 boe/d. Capital plans for the fourth quarter of 2011 include the drilling of approximately 14 to 16 gross operated wells and participation in approximately 8 to 12 gross non-operated wells. This activity level should result in a projected 50 net well drilling program for the full year of 2011 with an estimated 42 to 47 of the 2011 wells on production by year end. Vermilion has completed all of its Cardium wells during the third quarter of 2011 using water based fracture stimulation treatments. Continued implementation of water based fracture stimulation treatments and broader utilization of multi-well pad based drilling is expected to continue to reduce overall program costs. Construction of a 15,000 bbls/d oil processing facility was completed during the third quarter with the facility being fully commissioned effective August 2, 2011, on schedule and under budget.

In France, an active workover and completion program over the balance of the year is expected to continue to hold production levels relatively stable. France represents a source of strong fund flows from operations and stable production for the foreseeable future. The Company currently expects to maintain 2011 average daily production rates in an approximate range of 8,000 to 8,500 boe/d through an ongoing program of optimization and workovers.

In the Netherlands, Vermilion initiated a four (2.3 net) well drilling program with two (1.4 net) wells drilled during the third quarter. Vermilion anticipates drilling the remaining two (0.9 net) wells and completing testing operations during the fourth quarter of 2011. Any potential production additions from the 2011 drilling campaign are currently projected to be tied-in beginning in 2013. Protracted unitization negotiations related to production from the Rotliegend zone of the Vinkega-1 well have resulted in a deferral of production, originally anticipated in September 2011. Based on the current state of negotiations, the Company currently expects to add production from the Rotliegend zone in early 2012. De Hoeve-1, the fourth and final well from the 2009 drilling program, is anticipated to come on production during the first quarter of 2012. Together Vinkega-1 and De Hoeve-1 are anticipated to add an incremental 1,500 boe/d of net production. The Netherlands is expected to deliver moderate production increases in the coming years from yearly drilling activity, although the timing of those increases is less predictable due to the extensive production permitting process.

In Australia, preparations for a two to three well drilling program for 2012 are currently underway, a rig has been contracted and Vermilion is currently targeting commencement of that program in the second or third quarter of 2012. Production levels at Wandoo remain strong and Vermilion expects to sustain 2011 annual average production levels at between 8,000 and 8,500 boe/d.

In Ireland, Vermilion and its Corrib partners embarked on an accelerated work program during the third quarter to ensure that certain conditions related to the regulatory approvals were fully satisfied. Existing appeals in Ireland's commercial courts with respect to certain aspects of the regulatory approvals received for the Corrib project have recently been dismissed following a negotiated settlement between the complainants and state authorities. Vermilion and its Corrib partners continue preparations of the tunnelling site to enable construction and tunnelling work to begin in mid-2012, following which Vermilion and its Corrib partners should be able to provide more certainty on the expected timing of first gas.

Despite the delay of the Rotliegend production additions from Vinkega-1, weather related delays in Canada and significant unplanned downtime in the third quarter of 2011, Vermilion continues to project attainment of full year average daily production volumes toward the lower end of its original guidance of 35,000 to 36,000 boe/d and an exit rate of approximately 37,000 boe/d.

Full year capital expenditures for 2011 are currently estimated at \$500 million, an approximate 8% increase relative to our original capital budget of \$461 million. The increase reflects approximately \$70 million of spending on land purchases related to Vermilion's ongoing New Growth Initiatives, which target the identification and capture of meaningful unconventional resource related exploration exposure in Canada, Europe and Australia. It also reflects increased Cardium development and facilities related expenditures resulting from higher activity levels offset to some extent by the deferral of certain expenditures in Ireland as a result of the delay of first gas to 2014.

Given the existing economic and political instabilities in certain regions around the globe that have led to the current macroeconomic uncertainties and the recent and considerable volatility in both commodity and equity prices, Vermilion's management and Board of Directors has elected to complete further review of planned capital expenditure activities for 2012 to ensure that Vermilion retains maximum financial flexibility and to safeguard the continued strength of Vermilion's balance sheet. Further details regarding Vermilion's planned 2012 capital expenditure budget will be released once management and the Board of Directors complete their review and approve the 2012 capital program.

The management and directors of Vermilion continue to control approximately 9% of the outstanding shares and remain well aligned with the interests of all stakeholders.

*(Signed "Lorenzo Donadeo")*

Lorenzo Donadeo  
President and Chief Executive Officer  
November 3, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is Management's Discussion and Analysis ("MD&A") dated November 3, 2011 of Vermilion Energy Inc.'s ("Vermilion" or the "Company") operating and financial results as at and for the three and nine months ended September 30, 2011 compared with the corresponding periods in the prior year. This discussion should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2011 and Vermilion's audited consolidated financial statements for the years ended December 31, 2010 and 2009, together with accompanying notes, as contained in Vermilion's 2010 Annual Report. Additional information relating to Vermilion, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The unaudited interim consolidated financial statements and comparative information have been prepared in Canadian dollars, except where another currency has been indicated, and in accordance with Canadian Generally Accepted Accounting Principles for publicly accountable entities ("Canadian GAAP", "GAAP", or alternatively, International Financial Reporting Standards or "IFRS") International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards", and with International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board. Previously, Vermilion prepared its interim and annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles as issued by the Canadian Accounting Standards Board ("Previous GAAP").

### **CORPORATE CONVERSION**

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

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

### **NON-GAAP MEASURES**

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

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

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

“**Net debt**” is the sum of long-term debt and working capital excluding the amount due pursuant to acquisition as presented in Vermilion’s consolidated balance sheets. Net debt is used by management to analyze the financial position and leverage of Vermilion. Long-term debt, which is the most directly comparable GAAP measure, is reconciled to net debt below:

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

“**Cash dividends per share**” represents actual cash dividends declared per share by Vermilion during the relevant periods.

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

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

“**Total net dividends, capital expenditures and asset retirement obligations settled**” is calculated as net dividends as determined above plus the following amounts for the relevant periods from Vermilion’s consolidated statements of cash flows: “Drilling and development of petroleum and natural gas properties”, “Exploration and evaluation of petroleum and natural gas properties”, “Withdrawals from reclamation fund” and “Asset retirement obligations settled.” This measure is reviewed by management and is also assessed as a percentage of fund flows from operations to analyze the amount of cash that is generated by Vermilion that is available to repay debt and fund potential acquisitions. This measure is reconciled to the relevant GAAP measures below:

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

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

“**Diluted shares outstanding**” is the sum of shares outstanding at the period end plus outstanding awards under Vermilion’s equity based compensation plans, based on current performance factor and forfeiture estimates.

“**Adjusted basic weighted average shares outstanding**” is different from the most directly comparable GAAP figure in that in the comparative period they include amounts related to outstanding exchangeable shares at the period end exchange ratio. As the exchangeable shares have been converted into shares of Vermilion, management believes that their inclusion in the comparative period calculation of basic rather than only in diluted per share statistics provides more meaningful information.

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

These measures are reconciled to the relevant GAAP measures below:

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

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

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

## **OPERATIONAL ACTIVITIES**

### **Canada**

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

### **France**

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

### **Netherlands**

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

### **Australia**

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

## PRODUCTION

	Three Months Ended Sept 30, 2011				Nine Months Ended Sept 30, 2011			
	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	%	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	%
Canada	5,831	42.94	12,987	38	5,378	43.17	12,573	36
France	7,946	0.97	8,108	23	8,208	0.96	8,368	24
Netherlands	64	33.15	5,589	16	55	32.31	5,440	16
Australia	7,992	-	7,992	23	8,330	-	8,330	24
Total production	21,833	77.06	34,676	100	21,971	76.44	34,711	100

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

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

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

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

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

## FINANCIAL REVIEW

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

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

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

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

Vermilion's net debt was \$467.4 million at September 30, 2011 (December 31, 2010 - \$303.3 million) representing approximately 100% of third quarter annualized fund flows from operations. Net debt increased primarily as a function of the increase in long-term debt and the decrease in cash and cash equivalents, both of which were used to fund capital expenditures. Vermilion's long-term debt at September 30, 2011 was \$409.1 million (December 31, 2010 - \$302.6 million). The year to date increase is a function of Vermilion's capital expenditures largely driven by continued Cardium resource play development in Canada, including the acquisition of additional Cardium acreage.

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

### CAPITAL EXPENDITURES AND ACQUISITION OF PROPERTIES

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

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

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

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

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

## PETROLEUM AND NATURAL GAS SALES

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

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

In Canada, petroleum and natural gas sales increased by \$18.2 million and \$41.9 million, respectively, for the three and nine months ended September 30, 2011 versus the corresponding periods in the prior year. These increases resulted from higher oil production and stronger oil prices which more than offset decreases in natural gas prices. Vermilion's blended realized oil and NGL price for Canada increased to \$86.29 per bbl and \$88.92 per bbl for the three and nine months ended September 30, 2011, respectively, from \$70.23 per bbl and \$72.17 per bbl for the corresponding periods in the prior year. For the nine months ended September 30, 2011 the WTI reference price averaged US\$95.48 per bbl versus US\$77.65 per bbl for the same period in 2010. The increase in strength of the Canadian dollar year over year partially offset the favourable impact of higher US dollar denominated crude prices. The price realized for natural gas sales in Canada decreased year over year from \$4.26 per mcf and \$4.71 per mcf for the three and nine months ended September 30, 2010, respectively, to \$3.95 per mcf and \$3.98 per mcf for the three and nine months ended September 30, 2011. This decrease in the realized prices for natural gas sales in Canada was due to a lower average AECO reference price of \$3.76 per mcf for the nine months ended September 30, 2011 versus \$4.13 per mcf for the same period in the prior year.

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

Netherlands' sales increased for the three and nine months ended September 30, 2011 by \$9.0 million and \$31.4 million, respectively. The year over year increases in sales for the quarter and year to date periods reflect both a higher sales price and increased volumes. The increase in volumes for 2011 resulted from placing on production one of two producing zones of the Vinkega-1 well that was drilled in 2009. Pricing for Vermilion's natural gas production in the Netherlands is highly correlated to the Dated Brent oil reference price. However, as a result of the pricing formula employed, there is a six to eight month lag before the impact of changes in oil prices are reflected in the realized price for Netherlands' natural gas sales. Accordingly, the increase in the Euro per mcf reference price through the third quarter of 2011 is associated with the strengthening of Dated Brent prices in the first part of 2011.

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

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

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

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

<sup>1</sup> Represents the cost of the produced crude oil including operating costs, depletion and certain royalties. See "Royalties".

## DERIVATIVE INSTRUMENTS

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

The following table summarizes Vermilion's outstanding financial derivative positions as at September 30, 2011.

<b>Risk Management: Oil</b>	<b>Funded Cost</b>	<b>bbls/d</b>	<b>US \$/bbl</b>
<b>Collar - WTI</b>			
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$ 96.20
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$ 96.25
July 2011 to December 2011	US \$1.00/bbl	2,400	\$ 80.00 - \$110.00
July 2011 to December 2011	US \$1.00/bbl	2,400	\$ 77.25 - \$ 98.50
<b>Collar - DATED BRENT</b>			
January 2011 to December 2011	US \$1.00/bbl	1,000	\$ 77.75 - \$ 96.00
January 2011 to December 2011	US \$1.00/bbl	1,000	\$ 77.50 - \$ 96.00
January 2011 to December 2011	US \$0.00/bbl	750	\$ 77.00 - \$ 95.40
January 2011 to December 2011	US \$1.00/bbl	750	\$ 78.00 - \$ 98.10
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$100.00
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$100.05
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$100.00
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$100.00
January 2012 to June 2012	US \$1.00/bbl	750	\$ 82.00 - \$105.60
January 2012 to June 2012	US \$1.00/bbl	750	\$ 82.00 - \$104.80
January 2012 to June 2012	US \$1.00/bbl	750	\$ 82.00 - \$106.10
January 2012 to December 2012	US \$1.00/bbl	1,000	\$ 82.00 - \$113.40
January 2012 to December 2012	US \$1.00/bbl	500	\$ 82.00 - \$115.50
January 2012 to December 2012	US \$1.00/bbl	500	\$ 82.00 - \$130.75
July 2012 to December 2012	US \$1.00/bbl	1,000	\$ 82.00 - \$126.55
July 2012 to December 2012	US \$1.00/bbl	1,000	\$ 82.00 - \$126.05
<b>Call Spread - DATED BRENT</b>			
January 2011 to December 2011	US \$6.08/bbl <sup>1</sup>	960	\$ 65.00 - \$ 85.00
January 2011 to December 2011	US \$5.15/bbl <sup>1</sup>	600	\$ 65.00 - \$ 85.00
<b>Put - DATED BRENT</b>			
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
<b>Risk Management: Natural Gas</b>	<b>Funded Cost</b>	<b>GJ/d</b>	<b>\$/GJ</b>
<b>Swap - AECO</b>			
January 2011 to October 2011	\$0.00/GJ	700	\$5.13
<b>Collar - AECO</b>			
July 2011 to October 2011	\$0.00/GJ	2,000	\$ 3.50 - \$ 3.91
<b>Risk Management: Foreign Exchange</b>	<b>Notional Principal (\$US) / Month</b>		<b>Fixed rate (\$CDN / \$US)</b>
<b>US Dollar Forward Sale</b>			
January 2011 to December 2011	\$750,000		\$1.07
January 2011 to December 2011	\$750,000		\$1.07

<sup>1</sup> The funded amounts for these instruments were paid in a prior period.

The impact of Vermilion's derivative based risk management activities decreased the fund flows netback for the three and nine months ended September 30, 2011 by \$2.44 per boe and \$2.34 per boe, respectively. This compares to an increase of \$0.76 per boe and \$0.57 per boe for the three and nine months ended September 30, 2010. The decrease in the periods ended September 30, 2011 was associated with the stronger commodity prices where the prices for crude oil exceeded the ceiling on certain collars entered into for 2011.

## ROYALTIES

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

As a result of Vermilion's adoption of IFRS, Vermilion no longer includes Australian Petroleum Resource Rent Tax ("PRRT") within royalties. Under IFRS, Vermilion accounts for PRRT as an income tax and accordingly, royalty figures presented for both the current and prior periods in this MD&A and the accompanying financial statements exclude PRRT. Vermilion's previously published MD&A for the three and nine months ended September 30, 2010 included PRRT of \$2.8 million and \$21.3 million, respectively, within royalties for those periods. The prior period amounts presented in the above table and below have been restated to reflect the reclassification of these amounts to income taxes.

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

Canadian royalties as a percentage of sales for the three and nine months ended September 30, 2011 were 13.5% and 14.0%, respectively (three and nine months ended September 30, 2010, 14.5% and 15.6%, respectively). Crude oil and NGL royalties as a percentage of their sales decreased for the year to date period to 17.1% from 21.5% for the prior year due to a change in the royalty framework implemented in 2010 whereby royalties are levied on horizontal oil wells at a flat 5% rate for the first 50,000 bbls to 100,000 bbls of production depending on well depth. As Vermilion has continued to drill more Cardium wells which benefit from this royalty incentive, the Company's crude royalty expense as a percentage of revenue has declined. Natural gas royalties as a percentage of their sales has decreased from 7.4% to 5.3% for the year to date period as a result of lower pricing year over year.

In France, the primary portion of the royalties levied is based on units of production and therefore is not subject to changes in commodity prices. Accordingly, as oil prices were higher for during 2011 as compared to 2010, royalties, as a percentage of sales, decreased to 6.0% from 6.5% for the nine months ended September 30, 2011 as compared to the prior year.

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

## OPERATING EXPENSE

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

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

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

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

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

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

#### TRANSPORTATION EXPENSE

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

Transportation expense is a function of the point of legal transfer of the product and is dependent upon where the product is sold, product split, location of properties, as well as industry transportation rates that are driven by supply and demand of available transport capacity. For the majority of Canadian oil and natural gas production, legal title transfers upon delivery to major pipelines. In France, the majority of Vermilion's transportation expense relates to production from the Aquitaine Basin, which is transported by pipeline to the Ambès terminal in Bordeaux and then shipped by tanker to the refinery in Le Havre, where the production is sold when the tanker is unloaded. In Australia, oil is sold at the Wandoo B Platform and in the Netherlands, gas is sold at the plant gate, resulting in no transportation expense relating to Vermilion's production in these countries.

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

Transportation expense decreased during the three and nine months ended September 30, 2011 compared to the same periods in 2010 primarily as a result of lower costs in France due to shipment timing and Ambès terminal costs.

#### GENERAL AND ADMINISTRATION EXPENSE

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

General and administration expense for the three and nine months ended September 30, 2011 was \$11.4 million and \$34.8 million, respectively (three and nine months ended September 30, 2010, \$10.4 million and \$30.2 million, respectively). This increase is attributable to higher employee costs as Vermilion has increased its staffing levels in Canada to help support its Cardium program and identify future opportunities to generate long-term growth.

## EQUITY BASED COMPENSATION EXPENSE

(\$M except per boe)	Three Months Ended		Nine Months Ended	
	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Equity based compensation expense	\$ 7,609	\$ 7,162	\$ 22,517	\$ 23,962
Per boe	\$ 2.39	\$ 2.49	\$ 2.38	\$ 2.83

Non-cash equity based compensation expense for the three and nine months ended September 30, 2011 was \$7.6 million and \$22.5 million, respectively (three and nine months ended September 30, 2010, \$7.2 million and \$24.0 million, respectively). This expense relates to the value attributable to long-term incentives granted to officers, employees and directors under the Vermilion Incentive Plan.

## INTEREST EXPENSE

(\$M except per boe)	Three Months Ended		Nine Months Ended	
	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Interest expense	\$ 6,659	\$ 3,159	\$ 18,602	\$ 9,888
Per boe	\$ 2.09	\$ 1.10	\$ 1.96	\$ 1.17

Interest expense for the three and nine months ended September 30, 2011 was \$6.7 million and \$18.6 million, respectively (three and nine months ended September 30, 2010, \$3.2 million and \$9.9 million, respectively). Interest expense for the year to date period in 2011 has increased from the same period in 2010 due to higher average debt levels as well as the issuance of the senior notes in first quarter of 2011 and the higher interest rate associated with those notes as compared to the cost of borrowings under the revolving credit facility.

## DEPLETION, DEPRECIATION AND ACCRETION EXPENSES

(\$M except per boe)	Three Months Ended		Nine Months Ended	
	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Depletion and depreciation expenses	\$ 60,516	\$ 42,999	\$ 171,813	\$ 123,158
Per boe	\$ 18.97	\$ 14.93	\$ 18.13	\$ 14.52
Accretion expense	\$ 5,378	\$ 4,459	\$ 16,096	\$ 13,306
Per boe	\$ 1.69	\$ 1.55	\$ 1.70	\$ 1.57

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

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

## TAXES

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

Vermilion pays current taxes in France, the Netherlands and Australia. Corporate income taxes in France and the Netherlands apply to taxable income after eligible deductions at a rate of approximately 35% and 45%, respectively. In Australia, current taxes include both corporate income taxes and PRRT. Corporate income taxes are applied at a rate of approximately 30% on taxable income after eligible deductions, which include PRRT. PRRT is a profit based tax applied at a rate of 40% on revenues less eligible expenditures (including operating expenses and capital expenditures).

Current taxes before PRRT for the three and nine months ended September 30, 2011 was \$24.6 million and \$86.6 million, respectively (three and nine months ended September 30, 2010, \$15.3 million and \$43.4 million, respectively). The increases are attributable to the higher year over year taxable income associated with increased levels of production and stronger oil prices.

The year over year increase in PRRT reflects the impact of increases in Australian production and crude oil prices combined with reduced capital expenditures. As capital expenditures are deductible in determining the PRRT when incurred, the reduction of capital spending in Australia in 2011 versus the comparable periods in 2010 resulted in an increase in PRRT for both of the three and nine months ended September 30, 2011. PRRT as a percentage of operating income for Australia was 31% and 37% for the three and nine months ended September 30, 2011, respectively (three and nine months ended September 30, 2010, 8% and 19%, respectively). The increase in PRRT as a percentage of operating income is due to lower capital expenditures occurring in both of the three and nine months ended September 30, 2011 (\$2.5 million and \$9.4 million, respectively) compared to the three and nine months ended September 30, 2010 (\$24.2 million and \$38.9 million, respectively).

As a function of the impact of Vermilion's Canadian tax pools, the Company does not presently pay current taxes in Canada.

## FOREIGN EXCHANGE

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

During the three and nine months ended September 30, 2011, a combined realized and unrealized foreign exchange loss of \$1.9 million and gain of \$13.7 million was recognized, respectively versus a \$14.6 million gain and \$19.7 million loss for the same periods in 2010. The foreign exchange impacts in the three and nine months ended September 30, 2011 are comprised of a realized loss of \$0.7 million and \$0.3 million, respectively, and an unrealized loss of \$1.2 million and an unrealized gain of \$14.0 million, respectively. The changes in unrealized foreign exchange gains were the result of the translation of financial balances denominated in currencies other than the functional currency of Vermilion and its subsidiaries.

## NET EARNINGS

Net earnings for the three and nine months ended September 30, 2011 was \$64.4 million or \$0.71 per share and \$173.1 million or \$1.92 per share, respectively (three and nine months ended September 30, 2010, \$24.6 million or \$0.29 per share and \$66.2 million or \$0.81 per share, respectively). The increase in earnings for the three and nine months ended September 30, 2011 is largely related to the increase in production and generally higher commodity prices in 2011 as compared to 2010, partially offset by year over year increases in current taxes. Further, the net earnings for the three and nine months ended September 30, 2011 reflects a derivative gain of \$19.5 million and a derivative loss of \$15.5 million, respectively (three and nine months ended September 30, 2010, loss of \$3.6 million and gain of \$9.7 million).

## SUMMARY OF QUARTERLY RESULTS

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

<sup>1</sup> Amounts presented under previous GAAP

## LIQUIDITY AND CAPITAL RESOURCES

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

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

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

### Revolving Credit Facility

At September 30, 2011, Vermilion had in place a bank credit facility totalling \$800 million. The facility, which matures in May 2014, is fully revolving up to the date of maturity. The facility is extendable from time to time, but not more than once per year, for a period not longer than three years, at the option of the lenders and upon notice from Vermilion. If no extension is granted by the lenders, the amounts owing pursuant to the facility are repayable on the maturity date. This facility bears interest at a rate applicable to demand loans plus applicable margins.

The credit facilities are secured by various fixed and floating charges against the subsidiaries of Vermilion. Under the terms of the revolving credit facility, Vermilion must maintain a ratio of total bank borrowings less certain debts related to Corrib (defined as consolidated total debt), to consolidated net earnings before interest, income taxes, depreciation, accretion and other certain non-cash items of not greater than 4.0. In addition, Vermilion must maintain a ratio of consolidated total senior debt to consolidated net earnings before interest, income taxes, depreciation, accretion and other certain non-cash items of not greater than 3.0. Consolidated total senior debt is defined as consolidated total debt excluding unsecured and subordinated debt.

As at September 30, 2011, Vermilion is in compliance with its financial covenants.

### Senior Unsecured Notes

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

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

### RECLAMATION FUND

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

### ASSET RETIREMENT OBLIGATIONS

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

## DIVIDENDS

### Sustainability of Dividends

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

<sup>1</sup> Amounts presented under previous GAAP

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

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

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

Since Vermilion's conversion to a trust in January 2003, the distribution remained at \$0.17 per unit per month until it was increased to \$0.19 per unit per month in December 2007. Effective September 1, 2010, Vermilion converted to a dividend paying corporation and dividends have remained at \$0.19 per share per month.

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

### SHAREHOLDERS' EQUITY

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

As at September 30, 2011, there were 90,675,152 shares outstanding. As at November 3, 2011, there were 90,810,447 shares outstanding.

### CORRIB PROJECT

Vermilion holds an 18.5% non-operating interest in the offshore Corrib gas field located off the northwest coast of Ireland. Production from Corrib is expected to increase Vermilion's volumes by approximately 9,000 boe/d once the field reaches peak production. Vermilion acquired its 18.5% working interest in the project on July 30, 2009. The project comprises seven offshore wells, both offshore and onshore pipeline segments as well as a significant natural gas processing facility. At the time of the acquisition most of the key components of the project, with the exception of the onshore pipeline, were either complete or in the latter stages of development. Vermilion's interest was acquired for cash consideration of \$136.8 million with subsequent capital expenditures to September 30, 2011 of \$230.0 million, primarily related to completion of the natural gas processing facility, sub-surface well work, and permitting and preparations for construction of the onshore pipeline. Furthermore, pursuant to the terms of the acquisition agreement, Vermilion will make an additional payment to the vendor of US\$135 million at the end of 2012. In 2011, approvals and permissions were granted for the onshore gas pipeline and construction is expected to commence in the coming months. Vermilion expects to continue significant capital investment on this project over the next two years and currently expects to achieve initial gas production from this field in late 2014.

## **RISK MANAGEMENT**

Vermilion is exposed to various market and operational risks.

For a detailed discussion of these risks, please see Vermilion's 2010 Annual Report which is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at <http://www.vermilionenergy.com/ir/financialreports/financialreportscurrent.cfm>

## **CRITICAL ACCOUNTING ESTIMATES**

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

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

## **OFF BALANCE SHEET ARRANGEMENTS**

Vermilion has certain lease agreements that are entered into in the normal course of operations. All leases are operating leases and accordingly no asset or liability value has been assigned in the balance sheet as of September 30, 2011.

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

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

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") TRANSITION**

### **Adoption of IFRS**

Vermilion has prepared its September 30, 2011 interim consolidated financial statements in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards", and with IAS 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board. Previously, Vermilion prepared its financial statements in accordance with Previous GAAP. The adoption of IFRS has not had a material impact on Vermilion's operations, strategic decisions, cash flow or capital expenditures. Vermilion's IFRS accounting policies are provided in Note 2 to the Interim consolidated financial statements. In addition, Note 20 to the interim consolidated financial statements presents reconciliations between Vermilion's 2010 Previous GAAP results and the 2010 IFRS results. The reconciliations include the Consolidated Balance Sheets as at September 30, 2010 and December 31, 2010; the Consolidated Statements of Net Earnings and Comprehensive Income, Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2010 and for the year ended December 31, 2010; and the Consolidated Statements of Changes in Shareholders' (Unitholders') Equity as at January 1, 2010, September 30, 2010 and December 31, 2010. The following provides summary reconciliations of Vermilion's 2010 Previous GAAP and IFRS results. Detailed descriptions of the differences between IFRS and Previous GAAP are outlined in Notes 20 and 21 to the interim consolidated financial statements.

## SUMMARY OF CHANGES IN NET EARNINGS AND COMPREHENSIVE INCOME

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

## SUMMARY OF CHANGES IN ROYALTY AND CURRENT TAX EXPENSES

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

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

## SUMMARY OF CHANGES IN FINANCIAL METRICS

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

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

**NETBACKS (6:1)**

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

The above table includes non-GAAP measures which may not be comparable to other companies. Please see "Non-GAAP Measures" for further discussion.

Vermilion considers Australian PRRT to be an operating item and accordingly, has included PRRT in the calculation of operating netbacks. Current income taxes presented above excludes PRRT.

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

	Note	September 30, 2011	December 31, 2010	January 1, 2010
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents	17	\$ 83,051	\$ 160,755	\$ 114,961
Accounts receivable		158,304	147,329	117,051
Crude oil inventory		13,210	10,707	5,235
Derivative instruments	13	8,072	10,249	8,217
Prepaid expenses and other		12,909	11,157	11,422
		275,546	340,197	256,886
Derivative instruments	13	1,037	942	7,896
Deferred taxes		161,814	147,949	124,707
Long-term investments		869	3,108	4,342
Exploration and evaluation assets	5	72,067	17,157	-
Goodwill	5	-	-	19,840
Reclamation fund	6	-	-	69,003
Capital assets	4	2,056,759	1,816,444	1,610,567
		\$ 2,568,092	\$ 2,325,797	\$ 2,093,241
<b>LIABILITIES</b>				
<b>Current</b>				
Accounts payable and accrued liabilities		\$ 250,885	\$ 252,319	\$ 195,909
Dividends or distributions payable	9	17,228	16,910	15,109
Derivative instruments	13	10,983	12,143	6,544
Income taxes payable		54,721	59,562	4,090
		333,817	340,934	221,652
Derivative instruments	13	510	8,157	4,563
Long-term debt	8	409,096	302,558	159,723
Amount due pursuant to acquisition	7	127,456	114,349	111,402
Asset retirement obligations	6	315,681	267,389	224,005
Equity based compensation liability	11	-	-	30,307
Deferred taxes		234,571	246,508	255,598
		1,421,131	1,279,895	1,007,250
Liability associated with exchangeable shares	10	-	-	217,992
<b>SHAREHOLDERS' OR UNITHOLDERS' EQUITY</b>				
Shareholders' capital	9	1,096,557	1,025,770	-
Unitholders' capital	9	-	-	711,667
Contributed surplus		40,318	40,726	-
Accumulated other comprehensive loss		(14,403)	(31,577)	-
Retained earnings		24,489	10,983	156,332
		1,146,961	1,045,902	867,999
		\$ 2,568,092	\$ 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, UNAUDITED)

	Note	Three Months Ended		Nine Months Ended	
		Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
<b>REVENUE</b>					
Petroleum and natural gas sales		\$ 248,361	\$ 172,253	\$ 756,398	\$ 511,379
Royalties		(13,483)	(10,195)	(39,230)	(32,885)
<b>Petroleum and natural gas revenue</b>		<b>234,878</b>	<b>162,058</b>	<b>717,168</b>	<b>478,494</b>
<b>EXPENSES</b>					
Operating		43,288	36,015	121,871	104,981
Transportation		6,461	6,547	18,511	20,397
Equity based compensation	11	7,609	7,162	22,517	23,962
(Gain) loss on derivative instruments	13	(19,454)	3,639	15,460	(9,680)
Interest expense		6,659	3,159	18,602	9,888
General and administration		11,375	10,393	34,830	30,167
Foreign exchange loss (gain)		1,930	(14,598)	(13,724)	19,742
Other expense (income)		786	(1,974)	1,942	2,431
Accretion	6	5,378	4,459	16,096	13,306
Depletion and depreciation	4,5	60,516	42,999	171,813	123,158
		<b>124,548</b>	<b>97,801</b>	<b>407,918</b>	<b>338,352</b>
<b>EARNINGS BEFORE INCOME TAXES AND OTHER ITEM</b>		<b>110,330</b>	<b>64,257</b>	<b>309,250</b>	<b>140,142</b>
<b>INCOME TAXES</b>					
Deferred		3,008	(1,972)	(27,921)	(21,888)
Current		42,880	18,115	164,107	64,697
		<b>45,888</b>	<b>16,143</b>	<b>136,186</b>	<b>42,809</b>
<b>OTHER ITEM</b>					
Remeasurement loss on liability associated with exchangeable shares	10	-	23,538	-	31,129
<b>NET EARNINGS</b>		<b>64,442</b>	<b>24,576</b>	<b>173,064</b>	<b>66,204</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
Currency translation adjustments		(4,577)	41,081	17,174	(16,880)
<b>COMPREHENSIVE INCOME</b>		<b>\$ 59,865</b>	<b>\$ 65,657</b>	<b>\$ 190,238</b>	<b>\$ 49,324</b>
<b>NET EARNINGS PER SHARE OR UNIT</b>					
Basic	12	\$ 0.71	\$ 0.29	\$ 1.92	\$ 0.81
Diluted		\$ 0.70	\$ 0.29	\$ 1.90	\$ 0.81
<b>WEIGHTED AVERAGE SHARES OR UNITS OUTSTANDING</b>					
Basic	12	90,491,566	83,374,059	89,954,939	81,241,924
Diluted		91,710,198	83,374,059	91,241,324	81,241,924

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

	Note	Three Months Ended		Nine Months Ended	
		Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
<b>OPERATING</b>					
Net earnings		\$ 64,442	\$ 24,576	\$ 173,064	\$ 66,204
Adjustments:					
Accretion		5,378	4,459	16,096	13,306
Depletion and depreciation		60,516	42,999	171,813	123,158
Unrealized (gain) loss on derivative instruments	13	(27,247)	5,838	(6,725)	(4,821)
Equity based compensation		7,609	7,162	22,517	23,962
Unrealized foreign exchange loss (gain)		1,260	(12,287)	(13,952)	25,289
Remeasurement loss on liability associated with exchangeable shares		-	23,538	-	31,129
Unrealized other expense (income)		1,403	(1,385)	2,561	3,028
Deferred taxes		3,008	(1,972)	(27,921)	(21,888)
		<b>116,369</b>	<b>92,928</b>	<b>337,453</b>	<b>259,367</b>
Asset retirement obligations settled	6	(4,269)	(939)	(15,512)	(1,751)
Changes in non-cash operating working capital	14	(12,194)	14,586	(33,488)	36,475
Cash flows from operating activities		<b>99,906</b>	<b>106,575</b>	<b>288,453</b>	<b>294,091</b>
<b>INVESTING</b>					
Drilling and development of petroleum and natural gas properties		(89,332)	(96,451)	(281,749)	(310,560)
Exploration and evaluation of petroleum and natural gas properties		(45,449)	(10,542)	(56,780)	(16,187)
Acquisition of petroleum and natural gas properties		-	173	(38,101)	(448)
Sale of short-term investments		-	64,129	-	64,129
Proceeds from equity investments		-	-	245	-
Withdrawals from reclamation fund		-	-	-	812
Changes in non-cash investing working capital	14	23,322	40,680	9,676	22,636
Cash flows used in investing activities		<b>(111,459)</b>	<b>(2,011)</b>	<b>(366,709)</b>	<b>(239,618)</b>
<b>FINANCING</b>					
Increase in long-term debt		40,655	19,999	106,561	89,999
Issuance of shares or trust units pursuant to the dividend or distribution reinvestment plans		15,219	10,524	42,279	27,357
Cash dividends or distributions		(51,545)	(46,080)	(153,657)	(137,345)
Cash flows from (used in) financing activities		<b>4,329</b>	<b>(15,557)</b>	<b>(4,817)</b>	<b>(19,989)</b>
Foreign exchange gain (loss) on cash held in foreign currencies		2,658	1,784	5,369	(6,844)
Net change in cash and cash equivalents		<b>(4,566)</b>	<b>90,791</b>	<b>(77,704)</b>	<b>27,640</b>
Cash and cash equivalents, beginning of period		87,617	51,810	160,755	114,961
Cash and cash equivalents, end of period	17	\$ 83,051	\$ 142,601	\$ 83,051	\$ 142,601
Supplementary information for operating activities - cash payments					
Interest paid		\$ 10,063	\$ 3,582	\$ 16,558	\$ 10,677
Income taxes paid		\$ 61,328	\$ 8,275	\$ 168,948	\$ 32,699

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

	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		-	-	(16,880)	-	(16,880)
Vesting of equity based awards	11	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		27,357	-	-	-	27,357
Equity based compensation expense		-	22,953	-	-	22,953
Shares or units issued on conversion of exchangeable shares	10	249,121	-	-	-	249,121
Units issued for bonus plan		1,008	-	-	-	1,008
Net earnings		-	-	-	66,204	66,204
Dividends or distributions declared		-	-	-	(139,080)	(139,080)
Balances as at September 30, 2010		\$ 1,012,302	\$ 30,112	\$ (16,880)	\$ 83,456	\$ 1,108,990

	Note	Shareholders' or Unitholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' or Unitholders' Equity
Balances as at January 1, 2011		\$ 1,025,770	\$ 40,726	\$ (31,577)	\$ 10,983	\$ 1,045,902
Currency translation adjustments		-	-	17,174	-	17,174
Vesting of equity based awards	11	22,139	(22,139)	-	-	-
Issuance of shares pursuant to the dividend reinvestment plan		42,279	-	-	-	42,279
Equity based compensation expense		-	21,731	-	-	21,731
Shares issued for bonus plan		786	-	-	-	786
Net earnings		-	-	-	173,064	173,064
Dividends declared		-	-	-	(153,975)	(153,975)
Share-settled dividends on vested equity based awards	11	5,583	-	-	(5,583)	-
Balances as at September 30, 2011		\$ 1,096,557	\$ 40,318	\$ (14,403)	\$ 24,489	\$ 1,146,961

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

	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		-	-	(33,606)	-	(33,606)
Vesting of equity based awards	11	21,597	-	-	-	21,597
Issuance of units pursuant to the distribution reinvestment plan		7,380	-	-	-	7,380
Units issued on conversion of exchangeable shares	10	135	-	-	-	135
Units issued for bonus plan		1,008	-	-	-	1,008
Net loss		-	-	-	(8,183)	(8,183)
Distributions declared		-	-	-	(45,528)	(45,528)
Balances as at March 31, 2010		741,787	-	(33,606)	102,621	810,802
Currency translation adjustments		-	-	(24,355)	-	(24,355)
Vesting of equity based awards	11	1,552	-	-	-	1,552
Issuance of units pursuant to the distribution reinvestment plan		9,453	-	-	-	9,453
Net earnings		-	-	-	49,811	49,811
Distributions declared		-	-	-	(45,969)	(45,969)
Balances as at June 30, 2010		752,792	-	(57,961)	106,463	801,294
Currency translation adjustments		-	-	41,081	-	41,081
Modification of equity based compensation from liability to equity		-	7,159	-	-	7,159
Issuance of shares or units pursuant to the distribution or dividend reinvestment plan		10,524	-	-	-	10,524
Equity based compensation expense		-	22,953	-	-	22,953
Shares issued on conversion of exchangeable shares	10	248,986	-	-	-	248,986
Net earnings		-	-	-	24,576	24,576
Dividends or distributions declared		-	-	-	(47,583)	(47,583)
Balances at September 30, 2010		1,012,302	30,112	(16,880)	83,456	1,108,990
Currency translation adjustments		-	-	(14,697)	-	(14,697)
Issuance of shares pursuant to the dividend reinvestment plan		13,468	-	-	-	13,468
Equity based compensation expense		-	10,614	-	-	10,614
Net loss		-	-	-	(21,809)	(21,809)
Dividends declared		-	-	-	(50,664)	(50,664)
Balances as at December 31, 2010		\$ 1,025,770	\$ 40,726	\$ (31,577)	\$ 10,983	\$ 1,045,902

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

	Note	Shareholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total Shareholders' or Unitholders' Equity
Balances as at January 1, 2011		\$ 1,025,770	\$ 40,726	\$ (31,577)	\$ 10,983	\$ 1,045,902
Currency translation adjustments		-	-	10,597	-	10,597
Vesting of equity based awards	11	16,407	(16,407)	-	-	-
Equity based compensation expense		-	7,440	-	-	7,440
Issuance of shares pursuant to the dividend reinvestment plan		12,976	-	-	-	12,976
Shares issued for bonus plan		786	-	-	-	786
Net earnings		-	-	-	27,193	27,193
Dividends declared		-	-	-	(50,942)	(50,942)
Share-settled dividends on vested equity based awards	11	4,991	-	-	(4,991)	-
Balances as at March 31, 2011		1,060,930	31,759	(20,980)	(17,757)	1,053,952
Currency translation adjustments		-	-	11,154	-	11,154
Vesting of equity based awards	11	5,643	(5,643)	-	-	-
Equity based compensation expense		-	6,682	-	-	6,682
Issuance of shares pursuant to the dividend reinvestment plan		14,084	-	-	-	14,084
Net earnings		-	-	-	81,429	81,429
Dividends declared		-	-	-	(51,421)	(51,421)
Share-settled dividends on vested equity based awards	11	564	-	-	(564)	-
Balances as at June 30, 2011		1,081,221	32,798	(9,826)	11,687	1,115,880
Currency translation adjustments		-	-	(4,577)	-	(4,577)
Vesting of equity based awards	11	89	(89)	-	-	-
Equity based compensation expense		-	7,609	-	-	7,609
Issuance of shares pursuant to the dividend reinvestment plan		15,219	-	-	-	15,219
Net earnings		-	-	-	64,442	64,442
Dividends declared		-	-	-	(51,612)	(51,612)
Share-settled dividends on vested equity based awards	11	28	-	-	(28)	-
Balances as at September 30, 2011		\$ 1,096,557	\$ 40,318	\$ (14,403)	\$ 24,489	\$ 1,146,961

**DESCRIPTION OF EQUITY RESERVES**

***Shareholders' (Unitholders') capital***

Represents the recognized amount for common shares or trust units when issued, including equity issuance costs. 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.

***Retained earnings***

Represents the consolidated undistributed earnings of Vermilion Energy Inc.

***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. 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**  
(TABULAR AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE OR UNIT AND PER SHARE OR UNIT AMOUNTS, UNAUDITED)

**1. BASIS OF PRESENTATION**

Vermilion Energy Inc. (the "Company" or "Vermilion") is a corporation governed by the laws of the Province of Alberta and is actively engaged in the business of oil 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 10). 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 condensed consolidated financial statements were approved and authorized for issuance by the Board of Directors of Vermilion on November 3, 2011.

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Accounting Framework***

The condensed consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles for publicly accountable entities ("Canadian GAAP" or "GAAP" or, alternatively, International Financial Reporting Standards or "IFRS") which includes International Accounting Standard ("IAS") 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). These condensed consolidated financial statements do not include all the necessary annual disclosures in accordance with Canadian GAAP.

***Principles of Consolidation***

Subsidiaries that are directly controlled by the parent company 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 determined to exist. If proven and/or probable reserves are identified as recoverable, the related E&E costs are reclassified to Petroleum and Natural Gas ("PNG") properties and equipment 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### ***Petroleum and Natural Gas Operations***

Vermilion recognizes PNG properties and equipment at cost less accumulated depletion, depreciation and impairment losses. The cost of PNG properties and equipment 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 21). 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 properties are replaced, disposed of, or no longer in use, they are derecognized.

Gains and losses on disposal of a component of PNG properties and equipment, 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 of 5% to 25% per year.

### ***Impairment of Long-Lived Assets***

E&E assets are tested for impairment when reclassified to PNG properties 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. A CGU 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 properties 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 net book 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 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.

### ***Long-Term Investments***

Long-term investments over which Vermilion does not have significant influence are carried at fair value. Dividends received or receivable from the investments are included in Vermilion's net earnings, with no adjustment to the carrying amount of the investment.

### ***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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### ***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.

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 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. Vermilion applies discount rates applicable to each of the jurisdictions in which it has future asset retirement obligations.

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, debt and equity security investments not subject to consolidation 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. Gains and losses associated with Vermilion's investments in debt and equity securities are included in other expense in the consolidated statements of net earnings and comprehensive income.

### ***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 actually vest as determined by the Company's achievement of a number of performance conditions; and 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 (see Note 11).

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 treasury stock method 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 or units 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. Several of Vermilion's subsidiaries transact in currencies other than the Canadian dollar and accordingly have functional currencies other than the Canadian Dollar. The functional currency of a subsidiary is the currency of the primary economic environment in which the subsidiary operates. Transactions denominated in a currency other than the functional currency are translated at the prevailing rates on the date of the transaction. Any monetary items held in a currency which is not the functional currency of the subsidiary are translated to the functional currency of the subsidiary at the prevailing rate as at the date of the balance sheet. All exchange differences arising as a result of the translation to the functional currency of the subsidiary 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 (income) 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 an investment in certain subsidiaries. When these loans are identified as being a 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 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 gain or 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 reclassified 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 includes both general and specific borrowings. Interest rates applied from general borrowings are computed using the weighted average borrowing rate for the period.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### ***Measurement Uncertainty***

The preparation of 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.

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***

Goodwill impairment tests involve estimates of the recoverable amount of the associated CGU on an annual basis or when events are identified which may be indicators of impairment. If the recoverable amount is less than the carrying value, an impairment loss would be recognized. The recoverable amount of the associated CGU's is based on external market value, reserve estimates and the related future cash flows which are subject to measurement uncertainty.

Impairment tests of PNG properties and equipment are performed at the level of the CGU when an indicator of impairment is identified. The calculation of the recoverable amount of the assets are 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.

### ***Deferred Taxes***

Tax interpretations, regulations, and legislation in the various jurisdictions in which Vermilion and its subsidiaries operate are subject to change. As such, income taxes are subject to measurement uncertainty.

### 3. CHANGES TO ACCOUNTING PRONOUNCEMENTS

#### ***New accounting pronouncements adopted***

March 31, 2011 was Vermilion's first reporting period under IFRS. Accounting standards effective for the year ending on December 31, 2011 have been adopted as part of the transition to IFRS.

#### ***Recent pronouncements issued***

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"*

IFRS 9 is the result 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.

On August 4, 2011, the IASB issued an exposure draft proposing a change in the required adoption date of IFRS 9 to January 1, 2015. Vermilion will adopt this standard when required under IFRS.

##### *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.

##### *IAS 19 "Post Employment Benefits"*

IAS 19 amends the recognition and measurement of defined benefit pension expense and expands disclosures for all employee benefit plans.

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.

Additionally, as of July 1, 2012, Vermilion will be required to adopt amendments to IAS 1 "Presentation of Financial Statements" which will require companies to group together items within Other Comprehensive Income that may be reclassified to the profit or loss section of the income statement (commonly referred to as "recycling"). Vermilion does not anticipate a material impact as a result of the amendment.

#### 4. CAPITAL ASSETS

	Petroleum and Natural Gas Properties and Equipment	Furniture and Equipment	Total
<b>Balance at January 1, 2010</b>	\$ 1,604,615	\$ 5,952	\$ 1,610,567
Additions	400,182	13,911	414,093
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	(77,526)	(390)	(77,916)
<b>Balance at December 31, 2010</b>	\$ 1,799,314	\$ 17,130	\$ 1,816,444
Additions	316,909	2,941	319,850
Borrowing costs capitalized	7,555	-	7,555
Changes in estimate for asset retirement obligations	40,709	-	40,709
Depletion and depreciation	(165,681)	(3,335)	(169,016)
Effect of movements in foreign exchange rates	41,079	138	41,217
<b>Balance at September 30, 2011</b>	\$ 2,039,885	\$ 16,874	\$ 2,056,759
Cost	\$ 1,604,615	\$ 15,150	\$ 1,619,765
Accumulated depletion and depreciation	-	(9,198)	(9,198)
<b>Net book value as at January 1, 2010</b>	\$ 1,604,615	\$ 5,952	\$ 1,610,567
Cost	\$ 1,981,855	\$ 27,986	\$ 2,009,841
Accumulated depletion and depreciation	(182,541)	(10,856)	(193,397)
<b>Net book value as at December 31, 2010</b>	\$ 1,799,314	\$ 17,130	\$ 1,816,444
Cost	\$ 2,387,821	\$ 31,983	\$ 2,419,804
Accumulated depletion and depreciation	(347,936)	(15,109)	(363,045)
<b>Net book value as at September 30, 2011</b>	\$ 2,039,885	\$ 16,874	\$ 2,056,759

#### Depletion and depreciation rates

PNG properties and equipment (unit of production method)  
Furniture and equipment (declining balance at rates of 5% to 25%)

During the nine months ended September 30, 2011, Vermilion capitalized \$1.9 million (for the year ended December 31, 2010 - \$1.3 million) of overhead costs directly attributable to PNG activities.

At September 30, 2011 and December 31, 2010, Vermilion performed an assessment as to whether any CGU had indicators of impairment. Based on the calculations and analysis performed, the estimated fair value less cost to sell or the value in use calculated using an after-tax discount rate of 8% exceeded the carrying values of Vermilion's PNG properties and equipment and therefore, the carrying values are not impaired.

#### 4. CAPITAL ASSETS (Continued)

The benchmark prices used in the December 31, 2010 calculations are as follows:

CDN\$/BOE	Canada	France	Netherlands	Australia	Ireland
2011	\$ 49.36	\$ 81.01	\$ 61.21	\$ 90.31	\$ -
2012	\$ 52.72	\$ 81.21	\$ 58.36	\$ 90.05	\$ -
2013	\$ 55.48	\$ 81.89	\$ 56.92	\$ 90.31	\$ 57.13
2014	\$ 58.52	\$ 85.39	\$ 58.21	\$ 92.35	\$ 58.36
2015	\$ 60.86	\$ 88.21	\$ 60.25	\$ 95.58	\$ 60.32
2016	\$ 62.77	\$ 90.34	\$ 61.78	\$ 98.01	\$ 61.79
2017	\$ 64.85	\$ 92.73	\$ 63.52	\$ 100.78	\$ 63.47
2018	\$ 66.85	\$ 94.95	\$ 65.11	\$ 103.31	\$ 65.00
2019	\$ 69.28	\$ 97.36	\$ 66.86	\$ 106.07	\$ 66.68
2020	\$ 71.55	\$ 99.28	\$ 68.22	\$ 108.23	\$ 67.99
Average increase thereafter	2.0%	2.0%	2.0%	2.0%	2.0%

#### 5. INTANGIBLE ASSETS

	Exploration and Evaluation Assets
<b>Balance at January 1, 2010</b>	\$ -
Additions	18,537
Depletion and depreciation	(927)
Effect of movements in foreign exchange rates	(453)
<b>Balance at December 31, 2010</b>	\$ 17,157
Additions	56,780
Depletion and depreciation	(2,797)
Effect of movements in foreign exchange rates	927
<b>Balance at September 30, 2011</b>	\$ 72,067
Cost	\$ 18,060
Accumulated depletion and depreciation	(903)
<b>Net book value as at December 31, 2010</b>	\$ 17,157
Cost	\$ 75,912
Accumulated depletion and depreciation	(3,845)
<b>Net book value as at September 30, 2011</b>	\$ 72,067
	<b>Goodwill</b>
<b>Balance at January 1, 2010</b>	\$ 19,840
Goodwill impairment	(19,840)
<b>Balance at December 31, 2010</b>	\$ -

## 5. INTANGIBLE ASSETS (Continued)

### Exploration and Evaluation Assets

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

### Goodwill

The goodwill as at January 1, 2010 was the result of a previous business combination. This amount was written off during the year ended December 31, 2010 as a result of declines in Canadian natural gas prices.

## 6. ASSET RETIREMENT OBLIGATIONS

The asset retirement obligations were determined based on the estimated future costs and timing to reclaim Vermilion's net interest in all wells and facilities. Vermilion has estimated the net present value of its asset retirement obligations to be \$315.7 million as at September 30, 2011 (December 31, 2010 - \$267.4 million) based on a total undiscounted future liability after inflation adjustment of \$996.4 million (December 31, 2010 - \$967.5 million). These payments are expected to be made over the next 46 years with the majority of the costs being incurred between 2011 and 2041. Vermilion calculated the present value of the obligations using discount rates between 6.5% and 8.1% (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 1.4% and 2.6%.

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

	<b>Asset Retirement Obligations</b>
<b>Balance at January 1, 2010</b>	\$ 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)
<b>Balance at December 31, 2010</b>	\$ 267,389
Additional obligations recognized	5,674
Changes in estimates for existing obligations	5,694
Obligations settled	(15,512)
Accretion	16,096
Changes in discount rates	29,341
Effect of movements in foreign exchange rates	6,999
<b>Balance at September 30, 2011</b>	\$ 315,681

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 changes in estimates for the year ended December 31, 2010 related primarily to the Netherlands operations and resulted from the availability of better 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.

## 7. 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 has recognized a non-current liability which was determined by discounting the expected future payment of US\$135 million. 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.

## 8. LONG-TERM DEBT

### Revolving Credit Facility

At September 30, 2011, Vermilion had in place a bank credit facility totalling \$800 million. The facility, which matures in May 2014, is fully revolving up to the date of maturity. The facility is extendable from time to time, but not more than once per year, for a period not longer than three years, at the option of the lenders and upon notice from Vermilion. If no extension is granted by the lenders, the amounts owing pursuant to the facility are repayable on the maturity date. This facility bears interest at a rate applicable to demand loans plus applicable margins.

The credit facilities are secured by various fixed and floating charges against the subsidiaries of Vermilion. Under the terms of the revolving credit facility, Vermilion must maintain a ratio of total bank borrowings less certain debts related to Corrib (defined as consolidated total debt), to consolidated net earnings before interest, income taxes, depreciation, accretion and other certain non-cash items of not greater than 4.0. In addition, Vermilion must maintain a ratio of consolidated total senior debt to consolidated earnings before interest, income taxes, depreciation, accretion and other certain non-cash items of not greater than 3.0. Consolidated total senior debt is defined as consolidated total debt excluding unsecured and subordinated debt.

### Senior Unsecured Notes

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

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

	Sept 30, 2011	Dec 31, 2010	Jan 1, 2010
Revolving credit facility	\$ 187,968	\$ 302,558	\$ 159,723
Senior unsecured notes	221,128	-	-
Total long-term debt	\$ 409,096	\$ 302,558	\$ 159,723

## 9. SHAREHOLDERS' 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 the 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.

<b>Unitholders' Capital</b>	<b>Number of Units</b>	<b>Amount</b>
<b>Balance as at January 1, 2010</b>	79,523,028	\$ 711,667
Issuance of units pursuant to the distribution reinvestment plan	718,424	23,186
Units issued on conversion of exchangeable shares (Note 10)	4,547	135
Vesting of equity based awards	668,986	23,149
Units issued for bonus plan	28,624	1,008
Units exchanged pursuant to corporate conversion	(80,943,609)	(759,145)
<b>Balance as at August 31, 2010</b>	-	\$ -

<b>Shareholders' Capital</b>	<b>Number of Shares</b>	<b>Amount</b>
<b>Balance as at August 31, 2010</b>	-	\$ -
Issuance of shares for units pursuant to corporate conversion	80,943,609	759,145
Shares issued on conversion of exchangeable shares pursuant to corporate conversion (Note 10)	7,586,546	248,986
Issuance of shares pursuant to the dividend reinvestment plan	468,087	17,639
<b>Balance as at December 31, 2010</b>	88,998,242	\$ 1,025,770
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	938,499	42,279
Shares issued for bonus plan	15,851	786
<b>Balance as at September 30, 2011</b>	90,675,152	\$ 1,096,557

### Dividends and Distributions

Dividends declared to shareholders for the three and nine months ended September 30, 2011 were \$51.6 million and \$154.0 million, respectively (three and nine month periods ended September 30, 2010, distributions to unitholders and dividends to shareholders of \$47.6 million and \$139.1 million, respectively). 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 financial statements being authorized for issue on November 3, 2011, Vermilion declared dividends of \$17.3 million or \$0.19 per share.

### 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.

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.

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.

## 9. SHAREHOLDERS' CAPITAL (Continued)

### Subsequent to Corporate Conversion

On September 1, 2010, Vermilion issued common shares in exchange for the outstanding trust units and exchangeable shares (Note 10). 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.

## 10. 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 20 and 21) 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:

	Number of Exchangeable Shares	Amount
<b>Liability Associated with Exchangeable Shares</b>		
<b>Balance as at January 1, 2010</b>	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)
<b>Balance as at December 31, 2010</b>	-	\$ -

## 11. 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 accrue 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.

## 11. 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 as well as 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.

Number of Awards	Nine Months Ended	Year Ended
	Sept 30, 2011	Dec 31, 2010
Opening balance	1,683,776	1,417,314
Granted	522,900	845,199
Vested	(434,150)	(447,714)
Forfeited	(52,275)	(131,023)
Closing balance	1,720,251	1,683,776

Equity based compensation expense of \$7.6 million and \$21.7 million was recorded during the three and nine months ended September 30, 2011 (2010 - \$7.2 million and \$23.0 million) related to the VIP Plan and TAP Plan awards.

## 12. PER SHARE OR UNIT AMOUNTS

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

(\$M except share amounts)	Three Months Ended		Nine Months Ended	
	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Net earnings	\$ 64,442	\$ 24,576	\$ 173,064	\$ 66,204
Basic weighted average shares or units outstanding	90,491,566	83,374,059	89,954,939	81,241,924
Dilutive impact of equity based or trust unit award plans	1,218,632	-	1,286,385	-
Diluted weighted average shares or units outstanding	91,710,198	83,374,059	91,241,324	81,241,924

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 three and nine months ended September 30, 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.

### 13. DERIVATIVE INSTRUMENTS

#### **Risk Management Activities**

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

The following table summarizes Vermilion's outstanding financial derivative positions as at September 30, 2011.

<b>Risk Management: Oil</b>	<b>Funded Cost</b>	<b>bbls/d</b>	<b>US \$/bbl</b>
<b>Collar - WTI</b>			
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$ 96.20
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$ 96.25
July 2011 to December 2011	US \$1.00/bbl	2,400	\$ 80.00 - \$110.00
July 2011 to December 2011	US \$1.00/bbl	2,400	\$ 77.25 - \$ 98.50
<b>Collar - DATED BRENT</b>			
January 2011 to December 2011	US \$1.00/bbl	1,000	\$ 77.75 - \$ 96.00
January 2011 to December 2011	US \$1.00/bbl	1,000	\$ 77.50 - \$ 96.00
January 2011 to December 2011	US \$0.00/bbl	750	\$ 77.00 - \$ 95.40
January 2011 to December 2011	US \$1.00/bbl	750	\$ 78.00 - \$ 98.10
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$100.00
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$100.05
January 2011 to December 2011	US \$1.00/bbl	500	\$ 78.00 - \$100.00
January 2012 to June 2012	US \$1.00/bbl	750	\$ 82.00 - \$105.60
January 2012 to June 2012	US \$1.00/bbl	750	\$ 82.00 - \$104.80
January 2012 to June 2012	US \$1.00/bbl	750	\$ 82.00 - \$106.10
January 2012 to December 2012	US \$1.00/bbl	1,000	\$ 82.00 - \$113.40
January 2012 to December 2012	US \$1.00/bbl	500	\$ 82.00 - \$115.50
January 2012 to December 2012	US \$1.00/bbl	500	\$ 82.00 - \$130.75
July 2012 to December 2012	US \$1.00/bbl	1,000	\$ 82.00 - \$126.55
July 2012 to December 2012	US \$1.00/bbl	1,000	\$ 82.00 - \$126.05
<b>Call Spread - DATED BRENT</b>			
January 2011 to December 2011	US \$6.08/bbl <sup>1</sup>	960	\$ 65.00 - \$ 85.00
January 2011 to December 2011	US \$5.15/bbl <sup>1</sup>	600	\$ 65.00 - \$ 85.00
<b>Put - DATED BRENT</b>			
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
<b>Risk Management: Natural Gas</b>	<b>Funded Cost</b>	<b>GJ/d</b>	<b>\$/GJ</b>
<b>Swap - AECO</b>			
January 2011 to October 2011	\$0.00/GJ	700	\$5.13
<b>Collar - AECO</b>			
July 2011 to October 2011	\$0.00/GJ	2,000	\$ 3.50 - \$ 3.91
<b>Risk Management: Foreign Exchange</b>	<b>Notional Principal (\$US) / Month</b>		<b>Fixed rate (\$CDN / \$US)</b>
<b>US Dollar Forward Sale</b>			
January 2011 to December 2011	\$750,000		\$1.07
January 2011 to December 2011	\$750,000		\$1.07

<sup>1</sup> The funded amounts for these instruments were paid in a prior period.

### 13. DERIVATIVE INSTRUMENTS (Continued)

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

	Sept 30, 2011	Dec 31, 2010
Fair value of contracts, beginning of period	\$ (9,109)	\$ 5,006
Reversal of opening unrealized loss (gain) on contracts settled during the period	6,796	(2,070)
Realized (loss) gain on contracts settled during the period	(22,185)	7,196
Unrealized loss during the period on contracts outstanding at the end of the period	(71)	(12,045)
Net payment to (receipt from) counterparties on contract settlements during the period	22,185	(7,196)
Fair value of contracts, end of period	\$ (2,384)	\$ (9,109)
Comprised of:		
Current derivative asset	\$ 8,072	\$ 10,249
Current derivative liability	(10,983)	(12,143)
Non-current derivative asset	1,037	942
Non-current derivative liability	(510)	(8,157)
Fair value of contracts, end of period	\$ (2,384)	\$ (9,109)

The (gain) loss on derivative instruments for the periods is comprised of the following:

	Three Months Ended		Nine Months Ended	
	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Realized loss (gain) on contracts settled during the period	\$ 7,793	\$ (2,199)	\$ 22,185	\$ (4,859)
Reversal of opening unrealized (loss) gain on contracts settled during the period	(2,479)	(872)	(6,796)	1,989
Unrealized (gain) loss during the period on contracts outstanding at the end of the period	(24,768)	6,710	71	(6,810)
(Gain) loss on derivative instruments	\$ (19,454)	\$ 3,639	\$ 15,460	\$ (9,680)

### 14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital:

	Three Months Ended		Nine Months Ended	
	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Changes in:				
Accounts receivable	\$ (7,882)	\$ (11,476)	\$ (10,975)	\$ 12,368
Crude oil inventory	(2,435)	(1,656)	(2,503)	(2,868)
Prepaid expenses and other	(3,442)	(738)	(2,342)	(2,216)
Accounts payable and accrued liabilities and income taxes payable	21,016	75,085	(6,275)	51,148
Movements in foreign exchange rates	3,871	(5,949)	(1,717)	679
Changes in non-cash working capital	\$ 11,128	\$ 55,266	\$ (23,812)	\$ 59,111
Changes in non-cash operating working capital	\$ (12,194)	\$ 14,586	\$ (33,488)	\$ 36,475
Changes in non-cash investing working capital	23,322	40,680	9,676	22,636
Changes in non-cash working capital	\$ 11,128	\$ 55,266	\$ (23,812)	\$ 59,111

## 15. 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.

Three Months Ended September 30, 2011	Canada	France	Netherlands	Australia	Ireland	Total
Total assets	\$ 1,101,924	\$ 555,024	\$ 141,667	\$ 268,525	\$ 500,952	\$ 2,568,092
Drilling and development of petroleum and natural gas properties	\$ 55,838	\$ 8,623	\$ 596	\$ 2,549	\$ 21,726	\$ 89,332
Exploration and evaluation of petroleum and natural gas properties	\$ 37,155	\$ 183	\$ 8,111	\$ -	\$ -	\$ 45,449

### Operating Income (Loss)

Oil and gas sales to external customers	\$ 61,903	\$ 80,845	\$ 29,883	\$ 75,730	\$ -	\$ 248,361
Royalties	(8,351)	(5,132)	-	-	-	(13,483)
Revenue from external customers	53,552	75,713	29,883	75,730	-	234,878
Realized (loss) on derivative instruments	(186)	(3,327)	-	(4,280)	-	(7,793)
Transportation expense	(1,641)	(2,567)	-	-	(2,253)	(6,461)
Operating expense	(13,473)	(14,281)	(3,991)	(11,543)	-	(43,288)
Operating income (loss)	\$ 38,252	\$ 55,538	\$ 25,892	\$ 59,907	\$ (2,253)	\$ 177,336

	Canada	France	Netherlands	Australia	Ireland	Total
Corporate income taxes	\$ 467	\$ 13,696	\$ 2,571	\$ 7,865	\$ -	\$ 24,599
Petroleum Resource Rent Tax	-	-	-	18,281	-	18,281
Current income taxes	\$ 467	\$ 13,696	\$ 2,571	\$ 26,146	\$ -	\$ 42,880

Three Months Ended September 30, 2010	Canada	France	Netherlands	Australia	Ireland	Total
Total assets	\$ 942,778	\$ 526,518	\$ 97,502	\$ 269,214	\$ 415,342	\$ 2,251,354
Drilling and development of petroleum and natural gas properties	\$ 45,924	\$ 7,096	\$ 1,384	\$ 24,217	\$ 17,830	\$ 96,451
Exploration and evaluation of petroleum and natural gas properties	\$ -	\$ -	\$ -	\$ -	\$ 10,542	\$ 10,542

### Operating Income (Loss)

Oil and gas sales to external customers	\$ 43,696	\$ 63,023	\$ 20,872	\$ 44,662	\$ -	\$ 172,253
Royalties	(6,319)	(3,876)	-	-	-	(10,195)
Revenue from external customers	37,377	59,147	20,872	44,662	-	162,058
Realized gain (loss) on derivative instruments	2,296	(97)	-	-	-	2,199
Transportation expense	(1,481)	(2,580)	-	-	(2,486)	(6,547)
Operating expense	(10,558)	(11,161)	(4,345)	(9,951)	-	(36,015)
Operating income (loss)	\$ 27,634	\$ 45,309	\$ 16,527	\$ 34,711	\$ (2,486)	\$ 121,695

	Canada	France	Netherlands	Australia	Ireland	Total
Corporate income taxes	\$ 219	\$ 7,121	\$ 2,157	\$ 5,842	\$ -	\$ 15,339
Petroleum Resource Rent Tax	-	-	-	2,776	-	2,776
Current income taxes	\$ 219	\$ 7,121	\$ 2,157	\$ 8,618	\$ -	\$ 18,115

15. SEGMENTED INFORMATION (Continued)

Nine Months Ended September 30, 2011	Canada	France	Netherlands	Australia	Ireland	Total
Drilling and development of petroleum and natural gas properties	\$ 171,290	\$ 41,117	\$ 11,732	\$ 9,448	\$ 48,162	\$ 281,749
Exploration and evaluation of petroleum and natural gas properties	\$ 44,915	\$ 3,754	\$ 8,111	\$ -	\$ -	\$ 56,780

**Operating Income (Loss)**

Oil and gas sales to external customers	\$ 177,512	\$ 241,383	\$ 82,474	\$ 255,029	\$ -	\$ 756,398
Royalties	(24,804)	(14,426)	-	-	-	(39,230)
Revenue from external customers	152,708	226,957	82,474	255,029	-	717,168
Realized (loss) on derivative instruments	(1,207)	(9,472)	-	(11,506)	-	(22,185)
Transportation expense	(4,627)	(7,163)	-	-	(6,721)	(18,511)
Operating expense	(39,503)	(35,541)	(12,346)	(34,481)	-	(121,871)
Operating income (loss)	\$ 107,371	\$ 174,781	\$ 70,128	\$ 209,042	\$ (6,721)	\$ 554,601

	Canada	France	Netherlands	Australia	Ireland	Total
Corporate income taxes	\$ 1,291	\$ 48,226	\$ 11,718	\$ 25,338	\$ -	\$ 86,573
Petroleum Resource Rent Tax	-	-	-	77,534	-	77,534
Current income taxes	\$ 1,291	\$ 48,226	\$ 11,718	\$ 102,872	\$ -	\$ 164,107

Nine Months Ended September 30, 2010	Canada	France	Netherlands	Australia	Ireland	Total
Drilling and development of petroleum and natural gas properties	\$ 189,485	\$ 27,965	\$ 6,504	\$ 38,908	\$ 47,698	\$ 310,560
Exploration and evaluation of petroleum and natural gas properties	\$ -	\$ -	\$ -	\$ -	\$ 16,187	\$ 16,187

**Operating Income (Loss)**

Oil and gas sales to external customers	\$ 135,633	\$ 180,734	\$ 51,122	\$ 143,890	\$ -	\$ 511,379
Royalties	(21,163)	(11,722)	-	-	-	(32,885)
Revenue from external customers	114,470	169,012	51,122	143,890	-	478,494
Realized gain on derivative instruments	4,127	732	-	-	-	4,859
Transportation expense	(4,669)	(8,160)	-	-	(7,568)	(20,397)
Operating expense	(29,384)	(32,337)	(12,209)	(31,051)	-	(104,981)
Operating income (loss)	\$ 84,544	\$ 129,247	\$ 38,913	\$ 112,839	\$ (7,568)	\$ 357,975

	Canada	France	Netherlands	Australia	Ireland	Total
Corporate income taxes	\$ 720	\$ 21,307	\$ 5,485	\$ 15,840	\$ -	\$ 43,352
Petroleum Resource Rent Tax	-	-	-	21,345	-	21,345
Current income taxes	\$ 720	\$ 21,307	\$ 5,485	\$ 37,185	\$ -	\$ 64,697

## 15. SEGMENTED INFORMATION (Continued)

### Reconciliation of operating income to net earnings

	Three Months Ended		Nine Months Ended	
	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Operating income	\$ 177,336	\$ 121,695	\$ 554,601	\$ 357,975
Equity based compensation	(7,609)	(7,162)	(22,517)	(23,962)
Unrealized gain (loss) on derivative instruments	27,247	(5,838)	6,725	4,821
Interest expense	(6,659)	(3,159)	(18,602)	(9,888)
General and administration	(11,375)	(10,393)	(34,830)	(30,167)
Foreign exchange (loss) gain	(1,930)	14,598	13,724	(19,742)
Other (expense) income	(786)	1,974	(1,942)	(2,431)
Accretion	(5,378)	(4,459)	(16,096)	(13,306)
Depletion and depreciation	(60,516)	(42,999)	(171,813)	(123,158)
Earnings before income taxes and other item	110,330	64,257	309,250	140,142
Income taxes	(45,888)	(16,143)	(136,186)	(42,809)
Remeasurement loss on liability associated with exchangeable shares	-	(23,538)	-	(31,129)
Net earnings	\$ 64,442	\$ 24,576	\$ 173,064	\$ 66,204

Vermilion has two major customers with revenues in excess of 10% within the France and Netherlands segments. Sales to the major customer in the France segment for the three and nine months ended September 30, 2011 are \$40.5 million and \$152.4 million, respectively (2010 - \$54.1 and \$136.4 million, respectively). All sales in the Netherlands segment are to one customer.

## 16. COMMITMENTS

Vermilion had the following future commitments associated with its operating leases as at September 30, 2011:

	2011	2012	2013	2014	2015	Thereafter	Total
Payments by period	\$ 1,466	\$ 6,845	\$ 6,845	\$ 6,845	\$ 6,845	\$ 45,521	\$ 74,367

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.

## 17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at September 30, 2011, December 31, 2010 and January 1, 2010 was comprised of the following:

	Sept 30, 2011	Dec 31, 2010	Jan 1, 2010
Money on deposit with banks	\$ 72,537	\$ 145,623	\$ 99,066
Short-term investments	10,514	15,132	15,895
Cash and cash equivalents	\$ 83,051	\$ 160,755	\$ 114,961

## 18. CAPITAL DISCLOSURES

In managing capital, Vermilion reviews whether fund flows from operations (a non-GAAP 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.

As a part of the management of capital which Vermilion defines as net debt and shareholders' capital, Vermilion monitors the ratio of net debt (a non-GAAP measure, which is defined by management as long-term debt as shown on the consolidated balance sheets plus working capital) 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:

	Three Months Ended		Nine Months Ended	
	Sept 30, 2011	Sept 30, 2010	Sept 30, 2011	Sept 30, 2010
Long-term debt	\$ 409,096	\$ 249,147	\$ 409,096	\$ 249,147
Current liabilities	333,817	269,358	333,817	269,358
Current assets	(275,546)	(280,553)	(275,546)	(280,553)
Net debt [1]	\$ 467,367	\$ 237,952	\$ 467,367	\$ 237,952
Cash flows from operating activities	\$ 99,906	\$ 106,575	\$ 288,453	\$ 294,091
Changes in non-cash operating working capital	12,194	(14,586)	33,488	(36,475)
Asset retirement obligations settled	4,269	939	15,512	1,751
Fund flows from operations	\$ 116,369	\$ 92,928	\$ 337,453	259,367
Annualized fund flows from operation [2]	\$ 465,476	\$ 371,712	\$ 449,937	345,823
Ratio of net debt to fund flows from operations ([1] ÷ [2])	1.0	0.6	1.0	0.7

For the 2011 periods presented, the ratio of net debt to fund flows from operations was 1.0. The increase in the ratio year over year reflects higher debt levels at September 30, 2011 resulting from the larger 2011 capital program and an acquisition of petroleum and natural gas properties.

In relation to its revolving credit facility, Vermilion is subject to certain externally imposed capital requirements (Note 8). During the periods covered by these consolidated financial statements, Vermilion continued to comply with these requirements.

## 19. FINANCIAL INSTRUMENTS

The following table summarizes information relating to Vermilion's financial instruments as at September 30, 2011 and December 31, 2010:

### Classification of Financial Instruments

Class of Financial Instruments	Location on Consolidated Balance Sheets	Accounting Designation	Related Income or Expense Account on Statement of Net Earnings and Comprehensive Income	As at September 30, 2011		As at December 31, 2010		Fair Value Measurement Hierarchy
				Carrying Value	Fair Value	Carrying Value	Fair Value	
				Cash	Cash and cash equivalents	HFT-B	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	
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	\$ 158,304	\$ 158,304	\$ 147,329	\$ 147,329	Not applicable
Derivative assets	Derivative instruments	HFT-B	(Gain) loss on derivative instruments	\$ 9,109	\$ 9,109	\$ 11,191	\$ 11,191	Level 2
Derivative liabilities	Derivative instruments	HFT-B	(Gain) loss on derivative instruments	\$ (11,493)	\$ (11,493)	\$ (20,300)	\$ (20,300)	Level 2
Portfolio investments	Long-term investments	HFT-A	Other income or expense	\$ 869	\$ 869	\$ 3,108	\$ 3,108	Level 1
Payables	Accounts payable and accrued liabilities Dividends or distributions payable	OTH	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	\$ (268,113)	\$ (268,113)	\$ (269,229)	\$ (269,229)	Not applicable
Long-term debt	Long-term debt	OTH	Interest expense	\$ (409,096)	\$ (418,595)	\$ (302,558)	\$ (302,558)	Not applicable
Long-term debt	Amount due pursuant to acquisition	OTH	None	\$ (127,456)	\$ (127,456)	\$ (114,349)	\$ (114,349)	Not applicable

Accounting designations used in the above table:

HFT-A – Designated by Vermilion as “Held for trading” upon initial recognition. Financial assets and liabilities designated as HFT-A are carried at fair value on the consolidated balance sheets with gains and losses associated with fair value adjustments recognized in net earnings. The designation as held for trading for these instruments is appropriate as this is consistent with Vermilion's risk management policies and investment strategies.

HFT-B – Classified as “Held for trading” in accordance with International Accounting Standard 39 “Financial Instruments: Recognition and Measurement”. As with HFT-A instruments, 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 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.

## 19. FINANCIAL INSTRUMENTS (Continued)

### 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. Fair values for portfolio investments are determined by reference to published price quotations in active markets. 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 September 30, 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.

### 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 related to the credit profile of those institutions.

#### 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, 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.

#### Equity price risk:

At September 30, 2011, Vermilion held portfolio investments in equity securities with a fair value of \$0.9 million (December 31, 2010 - \$3.1 million). The fair value of these instruments is exposed to changes in the prices of the underlying equities.

#### 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.

## 19. FINANCIAL INSTRUMENTS (Continued)

### Summarized Quantitative Data Associated with the Risks Arising from Financial Instruments

#### Credit risk:

As at September 30, 2011, Vermilion's maximum exposure to receivable credit risk was \$167.4 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, Vermilion has satisfactorily reviewed the counterparty for creditworthiness.

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 September 30, 2011 and December 31, 2010:

Due in (from balance sheet date)	Not later than 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
September 30, 2011	95,242	167,400	5,471	553,220
December 31, 2010	88,296	163,110	17,823	438,371

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

#### 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 net earnings before tax would be for the nine months ended September 30, 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 net earnings before tax associated with changes in these risk variables for liabilities that are not considered financial instruments is excluded from this analysis. This analysis does not attempt to reflect any interdependencies between the relevant risk variables.

Nine months ended September 30, 2011:

Risk	Description of change in risk variable	Before tax effect on comprehensive income increase (decrease)
Currency risk - Euro to Canadian	<b>Increase</b> in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on September 30, 2011	\$ (564)
	<b>Decrease</b> in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on September 30, 2011	\$ 564
Currency risk - US\$ to Canadian	<b>Increase</b> in strength of the Canadian dollar against the US\$ by 5% over the relevant closing rates on September 30, 2011	\$ 1,656
	<b>Decrease</b> in strength of the Canadian dollar against the US\$ by 5% over the relevant closing rates on September 30, 2011	\$ (1,656)
Currency risk - AUD\$ to Canadian	<b>Increase</b> in strength of the Canadian dollar against the AUD\$ by 5% over the relevant closing rates on September 30, 2011	\$ (126)
	<b>Decrease</b> in strength of the Canadian dollar against the AUD\$ by 5% over the relevant closing rates on September 30, 2011	\$ 126
Commodity price risk	<b>Increase</b> in relevant oil reference price at September 30, 2011 by US\$5.00/bbl within option pricing models used to determine the fair value of derivative positions	\$ (8,660)
	<b>Decrease</b> in relevant oil reference price at September 30, 2011 by US\$5.00/bbl within option pricing models used to determine the fair value of derivative positions	\$ 8,347

## 19. FINANCIAL INSTRUMENTS (Continued)

Nine months ended September 30, 2010:

Risk	Description of change in risk variable	Before tax effect on comprehensive income increase (decrease)
Currency risk - Euro to Canadian	<b>Increase</b> in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on September 30, 2010	\$ (1,866)
	<b>Decrease</b> in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on September 30, 2010	\$ 1,866
Currency risk - US\$ to Canadian	<b>Increase</b> in strength of the Canadian dollar against the US\$ by 5% over the relevant closing rates on September 30, 2010	\$ 3,760
	<b>Decrease</b> in strength of the Canadian dollar against the US\$ by 5% over the relevant closing rates on September 30, 2010	\$ (3,760)
Currency risk - AUD\$ to Canadian	<b>Increase</b> in strength of the Canadian dollar against the AUD\$ by 5% over the relevant closing rates on September 30, 2010	\$ (727)
	<b>Decrease</b> in strength of the Canadian dollar against the AUD\$ by 5% over the relevant closing rates on September 30, 2010	\$ 727
Commodity price risk	<b>Increase</b> in relevant oil reference price at September 30, 2010 by US\$5.00/bbl within option pricing models used to determine the fair value of derivative positions	\$ 3,156
	<b>Decrease</b> in relevant oil reference price at September 30, 2010 by US\$5.00/bbl within option pricing models used to determine the fair value of derivative positions	\$ 726

Reasonably, possible changes in interest rates and natural gas prices would not have had a material impact on comprehensive income for the periods ended September 30, 2011 or 2010.

## 20. 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 condensed consolidated financial statements for the interim period ended September 30, 2011 are the third interim 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. Vermilion will issue a statement of compliance in its 2011 annual consolidated financial statements.

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 will be for 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.

## 20. 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.

## 20. TRANSITION TO IFRS (Continued)

### 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.

### 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 Note 21 (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.

## 20. TRANSITION TO IFRS (Continued)

### EFFECT OF TRANSITION ON THE CONSOLIDATED BALANCE SHEETS

		PREVIOUS GAAP		IFRS	PREVIOUS GAAP		IFRS
		As At Sept 30, 2010	Effect of Transition to IFRS	As At Sept 30, 2010	As At Dec 31, 2010	Effect of Transition to IFRS	As At Dec 31, 2010
<b>ASSETS</b>							
<b>Current</b>							
Cash and cash equivalents		\$ 142,601	\$ -	\$ 142,601	\$ 160,755	\$ -	\$ 160,755
Accounts receivable		104,683	-	104,683	147,329	-	147,329
Crude oil inventory		8,103	-	8,103	10,707	-	10,707
Derivative instruments		12,103	-	12,103	10,249	-	10,249
Prepaid expenses and other		13,063	-	13,063	11,157	-	11,157
Deferred taxes	a	-	-	-	2,902	(2,902)	-
		280,553	-	280,553	343,099	(2,902)	340,197
Derivative instruments		3,990	-	3,990	942	-	942
Deferred taxes	a	152,208	(8,668)	143,540	151,477	(3,528)	147,949
Long-term investments		3,169	-	3,169	3,108	-	3,108
Exploration and evaluation assets	e	-	17,165	17,165	-	17,157	17,157
Goodwill	j	51,589	(31,749)	19,840	51,589	(51,589)	-
Capital assets	b,e,f,j	1,960,181	(177,084)	1,783,097	2,031,501	(215,057)	1,816,444
		\$ 2,451,690	\$ (200,336)	\$ 2,251,354	\$ 2,581,716	\$ (255,919)	\$ 2,325,797
<b>LIABILITIES</b>							
<b>Current</b>							
Accounts payable and accrued liabilities	a	\$ 218,129	\$ (3,070)	\$ 215,059	\$ 253,086	\$ (767)	\$ 252,319
Dividends or distributions payable		16,844	-	16,844	16,910	-	16,910
Derivative instruments	i	-	1,367	1,367	12,143	-	12,143
Income taxes payable	a	32,879	3,209	36,088	58,795	767	59,562
Deferred taxes	a	1,811	(1,811)	-	-	-	-
		269,663	(305)	269,358	340,934	-	340,934
Derivative instruments	i	-	4,899	4,899	1,767	6,390	8,157
Long-term debt		249,147	-	249,147	302,558	-	302,558
Amount due pursuant to acquisition		116,187	-	116,187	114,349	-	114,349
Asset retirement obligations	f	243,755	6,544	250,299	274,560	(7,171)	267,389
Deferred taxes	a	264,224	(11,750)	252,474	246,982	(474)	246,508
		1,142,976	(612)	1,142,364	1,281,150	(1,255)	1,279,895
<b>SHAREHOLDERS' EQUITY</b>							
Shareholders' capital		1,032,462	(20,160)	1,012,302	1,045,930	(20,160)	1,025,770
Contributed surplus	d	26,610	3,502	30,112	39,841	885	40,726
Accumulated other comprehensive loss	b	-	(16,880)	(16,880)	-	(31,577)	(31,577)
Retained earnings		249,642	(166,186)	83,456	214,795	(203,812)	10,983
		1,308,714	(199,724)	1,108,990	1,300,566	(254,664)	1,045,902
		\$ 2,451,690	\$ (200,336)	\$ 2,251,354	\$ 2,581,716	\$ (255,919)	\$ 2,325,797

## 20. TRANSITION TO IFRS (Continued)

### EFFECT OF TRANSITION ON THE CONSOLIDATED STATEMENTS OF NET EARNINGS AND COMPREHENSIVE INCOME

	PREVIOUS GAAP			IFRS			PREVIOUS GAAP			IFRS		
	Three Months Ended Sept 30, 2010	Effect of Transition to IFRS	Three Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2010	Effect of Transition to IFRS	Nine Months Ended Sept 30, 2010	Year Ended Dec 31, 2010	Effect of Transition to IFRS	Year Ended Dec 31, 2010			
<b>REVENUE</b>												
Petroleum and natural gas sales	\$ 172,253	\$ -	\$ 172,253	\$ 511,379	\$ -	\$ 511,379	\$ 727,805	\$ -	\$ 727,805			
Royalties	(12,971)	2,776	(10,195)	(54,230)	21,345	(32,885)	(83,509)	39,537	(43,972)			
<b>Petroleum and natural gas revenue</b>	<b>159,282</b>	<b>2,776</b>	<b>162,058</b>	<b>457,149</b>	<b>21,345</b>	<b>478,494</b>	<b>644,296</b>	<b>39,537</b>	<b>683,833</b>			
<b>EXPENSES</b>												
Operating	36,015	-	36,015	104,981	-	104,981	144,595	-	144,595			
Transportation	6,547	-	6,547	20,397	-	20,397	26,698	-	26,698			
Equity based compensation	5,567	1,595	7,162	14,938	9,024	23,962	28,170	6,406	34,576			
Loss (gain) on derivative instruments	2,241	1,398	3,639	(10,554)	874	(9,680)	3,906	3,013	6,919			
Interest expense	3,159	-	3,159	9,888	-	9,888	13,370	-	13,370			
General and administration	10,393	-	10,393	30,167	-	30,167	42,842	-	42,842			
Foreign exchange (gain) loss	17,170	(31,768)	(14,598)	(12,338)	32,080	19,742	(26,132)	61,091	34,959			
Other (income) expense	(1,974)	-	(1,974)	2,431	-	2,431	2,469	-	2,469			
Accretion	-	4,459	4,459	-	13,306	13,306	-	17,903	17,903			
Depletion and depreciation	71,590	(28,591)	42,999	190,005	(66,847)	123,158	271,556	(87,936)	183,620			
	\$ 150,708	\$ (52,907)	\$ 97,801	\$ 349,915	\$ (11,563)	\$ 338,352	\$ 507,474	\$ 477	\$ 507,951			
<b>EARNINGS BEFORE INCOME</b>												
<b>TAXES AND OTHER ITEMS</b>	8,574	55,683	64,257	107,234	32,908	140,142	136,822	39,060	175,882			
<b>INCOME TAXES</b>												
Deferred	(15,982)	14,010	(1,972)	(39,805)	17,917	(21,888)	(55,383)	23,663	(31,720)			
Current	15,339	2,776	18,115	43,352	21,345	64,697	72,701	39,537	112,238			
	(643)	16,786	16,143	3,547	39,262	42,809	17,318	63,200	80,518			
<b>OTHER ITEMS</b>												
Goodwill impairment							-	19,840	19,840			
Non-controlling interest - exchangeable shares	306	(306)	-	8,241	(8,241)	-	8,241	(8,241)	-			
Remeasurement loss on liability associated with exchangeable shares	-	23,538	23,538	-	31,129	31,129	-	31,129	31,129			
<b>NET EARNINGS</b>	8,911	15,665	24,576	95,446	(29,242)	66,204	111,263	(66,868)	44,395			
Cumulative translation adjustments	-	41,081	41,081	-	(16,880)	(16,880)	-	(31,577)	(31,577)			
<b>COMPREHENSIVE INCOME</b>	\$ 8,911	\$ 56,746	\$ 65,657	\$ 95,446	\$ (46,122)	\$ 49,324	\$ 111,263	\$ (98,445)	\$ 12,818			
<b>NET EARNINGS PER SHARE OR UNIT</b>												
Basic	\$ 0.11	\$ 0.18	\$ 0.29	\$ 1.17	\$ (0.36)	\$ 0.81	\$ 1.34	\$ (0.81)	\$ 0.53			
Diluted	\$ 0.10	\$ 0.19	\$ 0.29	\$ 1.17	\$ (0.36)	\$ 0.81	\$ 1.32	\$ (0.79)	\$ 0.53			

## 20. TRANSITION TO IFRS (Continued)

### EFFECT OF TRANSITION ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS

	PREVIOUS GAAP			IFRS			PREVIOUS GAAP			IFRS		
	Three Months Ended Sept 30, 2010	Effect of Transition to IFRS	Three Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2010	Effect of Transition to IFRS	Nine Months Ended Sept 30, 2010	Year Ended Dec 31, 2010	Effect of Transition to IFRS	Year Ended Dec 31, 2010			
<b>OPERATING</b>												
Net earnings	\$ 8,911	\$ 15,665	\$ 24,576	\$ 95,446	\$ (29,242)	\$ 66,204	\$ 111,263	\$ (66,868)	\$ 44,395			
Adjustments:												
Accretion	f -	4,459	4,459	-	13,306	13,306	-	17,903	17,903			
Depletion and depreciation	e 71,590	(28,591)	42,999	190,005	(66,847)	123,158	271,556	(87,936)	183,620			
Unrealized loss (gain) on derivative instruments	i 6,053	(215)	5,838	(1,752)	(3,069)	(4,821)	17,060	(2,945)	14,115			
Equity based compensation	d 5,567	1,595	7,162	14,938	9,024	23,962	28,170	6,406	34,576			
Unrealized foreign exchange (gain) loss	b 19,482	(31,769)	(12,287)	(6,791)	32,080	25,289	(20,509)	61,091	40,582			
Goodwill impairment	j -	-	-	-	-	-	-	19,840	19,840			
Non-controlling interest exchangeable shares	c 306	(306)	-	8,241	(8,241)	-	8,241	(8,241)	-			
Remeasurement loss on liability associated with exchangeable shares	c -	23,538	23,538	-	31,129	31,129	-	31,129	31,129			
Unrealized other (income) expense	(1,385)	-	(1,385)	3,028	-	3,028	3,089	-	3,089			
Deferred taxes	a (15,982)	14,010	(1,972)	(39,805)	17,917	(21,888)	(55,383)	23,663	(31,720)			
	94,542	(1,614)	92,928	263,310	(3,943)	259,367	363,487	(5,958)	357,529			
Asset retirement obligations settled	(939)	-	(939)	(1,751)	-	(1,751)	(6,861)	-	(6,861)			
Changes in non-cash operating working capital	12,972	1,614	14,586	32,532	3,943	36,475	64,656	5,958	70,614			
Cash flows from operating activities	106,575	-	106,575	294,091	-	294,091	421,282	-	421,282			
<b>INVESTING</b>												
Drilling and development of petroleum and natural gas properties	e (106,993)	10,542	(96,451)	(326,747)	16,187	(310,560)	(432,182)	18,030	(414,152)			
Exploration and evaluation of petroleum and natural gas properties	e -	(10,542)	(10,542)	-	(16,187)	(16,187)	-	(18,030)	(18,030)			
Acquisition of petroleum and natural gas properties	i (1,539)	1,712	173	(4,436)	3,988	(448)	(6,655)	6,207	(448)			
Sale of short-term investments	64,129	-	64,129	64,129	-	64,129	64,126	-	64,126			
Withdrawals from reclamation fund	-	-	-	812	-	812	812	-	812			
Changes in non-cash investing working capital	42,392	(1,712)	40,680	26,624	(3,988)	22,636	14,073	(6,207)	7,866			
Cash flows used in investing activities	(2,011)	-	(2,011)	(239,618)	-	(239,618)	(359,826)	-	(359,826)			
<b>FINANCING</b>												
Increase in long-term debt	19,999	-	19,999	89,999	-	89,999	142,700	-	142,700			
Issuance of shares or units pursuant to the dividend or distribution reinvestment plan	10,524	-	10,524	27,357	-	27,357	40,824	-	40,824			
Cash dividends or distributions	(46,080)	-	(46,080)	(137,345)	-	(137,345)	(187,943)	-	(187,943)			
Cash flows used in financing activities	(15,557)	-	(15,557)	(19,989)	-	(19,989)	(4,419)	-	(4,419)			
Foreign exchange gain (loss) on cash held in foreign currencies	1,784	-	1,784	(6,844)	-	(6,844)	(11,243)	-	(11,243)			
Net change in cash and cash equivalents	90,791	-	90,791	27,640	-	27,640	45,794	-	45,794			
Cash and cash equivalents, beginning of period	51,810	-	51,810	114,961	-	114,961	114,961	-	114,961			
Cash and cash equivalents, end of period	\$ 142,601	\$ -	\$ 142,601	\$ 142,601	\$ -	\$ 142,601	\$ 160,755	\$ -	\$ 160,755			
<b>Supplementary information for operating activities – cash payments</b>												
Interest paid	\$ 3,582	\$ -	\$ 3,582	\$ 10,677	\$ -	\$ 10,677	\$ 13,585	\$ -	\$ 13,585			
Income taxes paid	a \$ 4,979	\$ 3,296	\$ 8,275	\$ 12,839	\$ 19,860	\$ 32,699	\$ 16,272	\$ 40,494	\$ 56,766			

## 20. TRANSITION TO IFRS (Continued)

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

		Shareholders' (Unitholders') Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' (Unitholders') Equity
<b>Balance per Previous GAAP as at January 1, 2010</b>		\$ 711,667	\$ 30,413	\$ -	\$ 297,210	\$ 1,039,290
<b>Transition adjustments:</b>						
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)
<b>Balance per IFRS as at January 1, 2010</b>		711,667	-	-	156,332	867,999
<b>Balance per Previous GAAP as at September 30, 2010</b>		\$ 1,032,462	\$ 26,610	\$ -	\$ 249,642	\$ 1,308,714
<b>Transition adjustments (see above):</b>						
<b>Comparative period adjustments:</b>						
Remeasurement of shares issued for exchangeable shares	c	(21,642)	(30,413)	-	(140,878)	(171,291)
Differences in equity based compensation	d	1,482	33,915	-	3,934	39,331
Difference in net earnings for the period		-	-	-	(29,242)	(29,242)
Cumulative translation adjustment	b	-	-	(16,880)	-	(16,880)
<b>Balance per IFRS as at September 30, 2010</b>		\$ 1,012,302	\$ 30,112	\$ (16,880)	\$ 83,456	\$ 1,108,990
<b>Balance per Previous GAAP as at December 31, 2010</b>		\$ 1,045,930	\$ 39,841	\$ -	\$ 214,795	\$ 1,300,566
<b>Transition adjustments (see above):</b>						
<b>Comparative period adjustments:</b>						
Remeasurement of shares issued for exchangeable shares	c	(21,642)	(30,413)	-	(140,878)	(171,291)
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)
Cumulative translation adjustment	b	-	-	(31,577)	-	(31,577)
<b>Balance per IFRS as at December 31, 2010</b>		\$ 1,025,770	\$ 40,726	\$ (31,577)	\$ 10,983	\$ 1,045,902

### EFFECT OF TRANSITION ON NET EARNINGS AND COMPREHENSIVE INCOME

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

## 21. 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, Australian Petroleum Resource Rent Tax ("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 income statement, 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 will be 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 and 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.

## 21. EXPLANATION OF TRANSITION TO IFRS (Continued)

e. *Property, plant and equipment*

Under Previous GAAP, PNG properties and equipment 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 properties 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.

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 properties and equipment and net earnings, respectively.

g. *Revenue*

Under Previous GAAP royalties on production were included as royalty expense on the income statement. 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.

## 21. EXPLANATION OF TRANSITION TO IFRS (Continued)

### *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. Under IFRS the accounting for the exchangeable shares pursuant to IAS 32 resulted in a difference which is reflected in the above reconciliations for the year ended December 31, 2010.

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Vice Chairman, Realex Properties Corp.  
Calgary, Alberta

William F. Madison <sup>2, 4, 5</sup>  
Sugar Land, Texas

Timothy R. Marchant <sup>3, 4, 5</sup>  
Calgary, Alberta

<sup>1</sup> Chairman of the Board

<sup>2</sup> Audit Committee

<sup>3</sup> Governance and Human Resources Committee

<sup>4</sup> Health, Safety and Environment Committee

<sup>5</sup> Independent Reserves Committee

## ABBREVIATIONS

bbl(s)	barrel(s)
mbbls	thousand barrels
bbls/d	barrels per day
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
boe	barrels of oil equivalent of natural gas and crude oil on the basis of one boe for six mcf of natural gas
mboe	thousand barrels of oil equivalent
mmboe	million barrels of oil equivalent
boe/d	barrels of oil equivalent per day
CBM	coalbed methane
NGLs	natural gas liquids
GJ/d	Gigajoules per day
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade
\$M	thousand dollars

## OFFICERS AND KEY PERSONNEL

### CANADA

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

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

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

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

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

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

Daniel Goulet, P.Eng.  
Director Production and Operations

Cameron A. Hercus, MSc  
Director Exploitation and New Growth

Dean N. Morrison, CFA  
Director Investor Relations

Gerardo Rivera  
Director Commercial

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

Paul L. Beique  
Investor Relations

### EUROPE

Peter Sider, P.Eng.  
Vice President European Operations

David Burghardt, P.Eng.  
Director Exploitation

Scott Ferguson, P.Eng.  
Director European Operations

### AUSTRALIA

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

## AUDITORS

Deloitte & Touche LLP  
Calgary, Alberta

## BANKERS

The Toronto-Dominion Bank  
Calgary, Alberta

Bank of Montreal  
Calgary, Alberta

BNP Paribas (Canada)  
Toronto, Ontario

Royal Bank of Canada  
Calgary, Alberta

The Bank of Nova Scotia  
Calgary, Alberta

Canadian Imperial Bank of Commerce  
Calgary, Alberta

Alberta Treasury Branches  
Calgary, Alberta

National Bank of Canada  
Calgary, Alberta

Citibank N.A., Canadian Branch  
Calgary, Alberta

## EVALUATION ENGINEERS

GLJ Petroleum Consultants Ltd.  
Calgary, Alberta

## LEGAL COUNSEL

Macleod Dixon LLP  
Calgary, Alberta

## TRANSFER AGENT

Computershare Trust Company of Canada

## STOCK EXCHANGE LISTING

The Toronto Stock Exchange

Symbol: VET

US OTC

Symbol: VEMTF

## INVESTOR RELATIONS CONTACT

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