Q3 2010

VERMILION ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

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;
- net revenue;
- debt levels;
- 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 and the expected impact of changes thereto on Vermilion;
- Vermilion's additional future payment in connection with the Corrib acquisition;
- the timing of regulatory proceedings;
- the timing of first commercial gas from the Corrib field;
- 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 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;
- currency, exchange and interest rates; and
- future oil and natural gas prices

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") dated November 4, 2010 of Vermilion's operating and financial results as at and for the three and nine month periods ended September 30, 2010 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 periods ended September 30, 2010 and Vermilion Energy Trust's (the "Trust") audited consolidated financial statements for the years ended December 31, 2009 and 2008, together with accompanying notes, as contained in the Trust's 2009 Annual Report.

The financial data contained within this MD&A has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP or "Canadian GAAP") and are reported in Canadian dollars, unless otherwise stated.

CORPORATE CONVERSION

On September 1, 2010 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 this 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 has 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 common shares, shareholders and dividends although for the pre-conversion period such items were trust 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 costs incurred. 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 costs 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 operating working capital. The most directly comparable GAAP measure is cash flows from operating activities. Cash flows from operating activities as presented in Vermilion's consolidated statements of cash flows is reconciled to fund flows from operations below:

	Three Months Ended		Nine Months Ended	
($M)	**Sept 30, 2010**	**Sept 30, 2009**	**Sept 30, 2010**	**Sept 30, 2009**
Cash flows from operating activities	**$ 106,575**	$ 88,297	**$ 294,091**	$ 146,132
Changes in non-cash operating working capital	**(12,972)**	(20,005)	**(32,532)**	71,800
Asset retirement costs incurred	**939**	1,019	**1,751**	5,285
Fund flows from operations	**$ 94,542**	$ 69,311	**$ 263,310**	$ 223,217

"Acquisitions, including acquired working capital deficiency" is the sum of "Acquisition of petroleum and natural gas properties" and "Corporate acquisition, net of cash acquired" as presented in Vermilion's consolidated statements of cash flows plus any working capital deficiencies acquired as a result of those acquisitions. Management considers acquired working capital deficiencies to be an important element of a property or corporate acquisition. Acquisitions, including acquired working capital deficiency is reconciled below:

($M)	Three Months Ended Sept 30, 2010	Three Months Ended Sept 30, 2009	Nine Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2009
Acquisition of petroleum and natural gas properties from consolidated statements of cash flows	**$ 1,539**	$ 125,074	**$ 4,436**	$ 142,622
Corporate acquisition, net of cash acquired from consolidated statements of cash flows	**-**	-	**-**	-
Working capital deficiencies acquired from investments and acquisitions (see financial statement notes for relevant period)	**-**	57,507	**-**	57,507
Acquisitions, including acquired working capital deficiency	**$ 1,539**	$ 182,581	**$ 4,436**	$ 200,129

"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. Net debt is reconciled below to long-term debt which is the most directly comparable GAAP measure:

($M)	As At Sept 30, 2010	As At Dec 31, 2009	As At Sept 30, 2009
Long-term debt	**$ 249,147**	$ 159,723	$ 374,729
Current liabilities	**269,663**	217,563	198,939
Current assets	**(280,553)**	(256,886)	(133,700)
Net debt	**$ 238,257**	$ 120,400	$ 439,968

"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 ("DRIP"). Dividends both before and after DRIP 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. Net dividends is reconciled below to dividends declared, the most directly comparable GAAP measure:

($M)	Three Months Ended Sept 30, 2010	Three Months Ended Sept 30, 2009	Nine Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2009
Dividends declared	**$ 47,583**	$ 40,677	**$ 139,080**	$ 121,366
Issue of shares pursuant to the dividend reinvestment plan	**(10,524)**	-	**(27,357)**	-
Net dividends	**$ 37,059**	$ 40,677	**$ 111,723**	$ 121,366

"Total net dividends, capital expenditures, reclamation fund withdrawals and asset retirement costs incurred" 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", "Withdrawals from the reclamation fund" and "Asset retirement costs incurred." 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:

	Three Months Ended		Nine Months Ended	
($M)	**Sept 30, 2010**	**Sept 30, 2009**	**Sept 30, 2010**	**Sept 30, 2009**
Dividends declared	**$ 47,583**	$ 40,677	**$ 139,080**	$ 121,366
Issue of shares pursuant to the dividend reinvestment plan	**(10,524)**	-	**(27,357)**	-
Drilling and development of petroleum and natural gas properties	**106,993**	50,781	**326,747**	119,208
Withdrawal from the reclamation fund	**-**	-	**(812)**	-
Asset retirement costs incurred	**939**	1,019	**1,751**	5,285
	$ 144,991	$ 92,477	**$ 439,409**	$ 245,859

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

"Adjusted basic shares outstanding" and "Adjusted basic weighted average shares outstanding" are used in the per share calculations on the Highlights schedule of this document and are different from the most directly comparable GAAP figures in that they include amounts related to outstanding exchangeable shares at the period end exchange ratio. As the exchangeable shares have converted into shares of Vermilion, management believes that their inclusion in the calculation of basic rather than only in diluted per share statistics provides meaningful information.

"Diluted shares outstanding" is the sum of **"Adjusted basic shares outstanding"** as described above plus outstanding awards under Vermilion's equity based compensation plans, based on current performance factor estimates.

These measures are reconciled to the relevant GAAP measures below:

	As At Sept 30, 2010	**As At Sept 30, 2009**
Basic weighted average shares outstanding	**81,241,924**	70,963,460
Shares issuable pursuant to exchangeable shares outstanding	**6,743,994**	7,162,800
Adjusted basic weighted average shares outstanding	**87,985,918**	78,126,260

	As At Sept 30, 2010	**As At Sept 30, 2009**
Shares outstanding	**88,651,035**	71,410,933
Shares issuable pursuant to exchangeable shares outstanding	**-**	7,091,597
Adjusted basic shares outstanding	**88,651,035**	78,502,530
Potential shares issuable pursuant to stock compensation plans	**1,542,809**	1,487,388
Diluted shares outstanding	**90,193,844**	79,989,918

OPERATIONAL ACTIVITIES

Canada

In Canada, Vermilion participated in the drilling of 11 wells (7.3 net) during the third quarter of 2010, including eight (5.3 net) horizontal Cardium wells. All operated Cardium wells were completed with 14 to 18 stage oil fracs and are expected to come on-stream during the fourth quarter of 2010. Performance expectations remain in-line with the performance of the initial five wells.

France

In France, Vermilion continued its workover and recompletion program and has seen positive results in Chaunoy and Cazaux as well as a strong response from its waterflood at Champotran. The Les Mimosas 2 well, in the Aquitaine Basin, which was drilled during the first quarter of 2010, also continues to perform well adding both additional volumes and reserves. This well was drilled as an injection well to improve the recovery of oil from this single well pool that was discovered in 2004. The success of these programs has increased current production volumes in France to levels not seen since 2007.

Netherlands

In the Netherlands, Vermilion continued to work towards receipt of permitting and regulatory approvals in anticipation of a four well drilling program to be initiated in 2011. A total of 16 drilling permits have been submitted for approval. Production permitting for the Vinkega-1 and De Hoeve-1 discovery wells is ongoing, with both wells expected to be put on production by mid 2011.

Australia

Vermilion completed drilling the first of three development wells in the Wandoo Field during the third quarter and anticipates bringing production from this well and the remaining two wells, completed subsequent to the quarter, by mid November. The three wells are expected to deliver additional production at a restricted rate of between 1,500 and 2,500 boe/d, combined.

PRODUCTION

Average production in Canada during the third quarter 2010 was 11,233 boe/d comprised of 4,205 bbls/d of oil and NGLs and 42.2 mmcf/d of natural gas compared to 11,434 boe/d, comprised of 4,060 bbls/d of oil and NGLs and 44.2 mmcf/d of natural gas, during the second quarter of 2010. Tie-in of production from third quarter drilling activities coupled with ongoing drilling and completion of Cardium light oil wells and liquids-rich natural gas wells should yield higher production volumes in the fourth quarter of 2010.

Production in France averaged 8,741 boe/d in the third quarter of 2010, 3.2% higher than average second quarter 2010 production of 8,472 boe/d. The quarter-over-quarter increase was attributable to positive waterflood results at Champotran coupled with successful workovers in Chaunoy and Cazaux.

Production in the Netherlands averaged 5,099 boe/d in the third quarter of 2010 compared to 5,269 boe/d in the second quarter of 2010. The decrease largely reflects natural production declines. Production is expected to increase in mid 2011 when the Vinkega-1 and De Hoeve-1 wells are brought on-stream.

Australia production averaged 6,225 boe/d in the third quarter 2010, compared to 6,522 boe/d in the second quarter of 2010, a decrease of 4.6%, attributable to production shutdowns related to drilling and maintenance activities during the third quarter. Fourth quarter production will be significantly higher as production associated with the three new wells is brought on-stream.

	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

	Three Months Ended Sept 30, 2009				Nine Months Ended Sept 30, 2009			
	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	%	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	%
Canada	3,601	45.67	11,212	37	3,705	48.78	11,834	37
France	8,111	0.87	8,257	27	8,255	1.03	8,426	27
Netherlands	20	19.98	3,351	11	23	21.20	3,557	11
Australia	7,598	-	7,598	25	8,043	-	8,043	25
Total Production	19,330	66.52	30,418	100	20,026	71.01	31,860	100

FINANCIAL REVIEW

During the three and nine month periods ended September 30, 2010, Vermilion generated fund flows from operations of $94.5 million and $263.3 million, respectively. For the same periods in 2009, Vermilion generated fund flows from operations of $69.3 million and $223.2 million, respectively. The respective increases in fund flows from operations of $25.2 million and $40.1 million are the result of higher average commodity prices year over year. The GAAP measure, cash flows from operating activities for the third quarter of 2010, similarly increased year over year to $106.6 million compared to $88.3 million for the same period in 2009. Cash flows from operating activities for the year to date period increased to $294.1 million versus $146.1 million for the same period in 2009. In addition to higher commodity prices, the year over year increase was due to 2009 cash flows from operating activities being negatively impacted by payments on income taxes accrued in 2008.

During the three and nine month periods ended September 30, 2010, the price of WTI crude oil averaged US$76.20 per barrel and US$77.65 per barrel, respectively. This is significantly higher than the average prices for the same periods in 2009 which were US$68.30 per barrel and US$57.00 per barrel, respectively. For the three and nine month periods ended September 30, 2010 the AECO price for gas averaged CDN$3.54 per mcf and CDN$4.13 per mcf, respectively (three and nine month periods ended September 30, 2009, CDN$2.94 per mcf and CDN$3.77 per mcf, respectively). On a year to date basis, the average AECO gas price increased by 10% versus the same period in 2009.

Vermilion's net debt was $238.3 million at September 30, 2010 (December 31, 2009 - $120.4 million) representing 63% of third quarter annualized fund flows from operations. Vermilion's long-term debt at September 30, 2010 was $249.1 million (December 31, 2009 - $159.7 million). The year over year increases are a function of Vermilion's significant Canadian land acquisitions during the first half of 2010 partially offset by the liquidation of the reclamation fund assets in July 2010 (see Reclamation Fund for further information).

For the three and nine month periods ended September 30, 2010, total net dividends, capital expenditures (excluding those on the Corrib project), reclamation fund withdrawals and asset retirement costs incurred as a percentage of fund flows from operations were 123% and 143%, respectively (three and nine month periods ended September 30, 2009, 102% and 100%, respectively). The year over year increase in this ratio relates to Vermilion's land acquisition activity and the Wandoo Field drilling campaign during 2010.

CAPITAL EXPENDITURES

Total capital spending, including acquisitions for the three and nine month periods ended September 30, 2010 was $108.5 million and $331.2 million, respectively (three and nine month periods ended September 30, 2009, $175.9 million and $261.8 million, respectively).

Capital spending excluding acquisitions has increased year over year primarily due to the significant land acquisitions associated with Vermilion's focus on Western Canadian resource plays. Also contributing to the higher levels of capital spending were costs incurred related to the 2010 Wandoo Field drilling campaign and post acquisition capital costs on the Corrib project.

On a year over year basis, the decrease in acquisitions is associated with the Corrib acquisition of $136.8 million completed on July 30, 2009.

	Three Months Ended		Nine Months Ended	
($M)	**Sept 30, 2010**	**Sept 30, 2009**	**Sept 30, 2010**	**Sept 30, 2009**
Land	**$ 3,561**	$ 4,787	**$ 96,304**	$ 8,204
Seismic	**723**	411	**2,949**	1,560
Drilling and completion	**65,833**	7,501	**120,672**	32,150
Production equipment and facilities	**24,506**	27,214	**72,835**	45,296
Recompletions	**2,516**	4,837	**10,208**	13,384
Other	**9,854**	6,031	**23,779**	18,614
	106,993	50,781	**326,747**	119,208
Acquisitions (excluding acquired working capital deficiency)	**1,539**	125,074	**4,436**	142,622
Total	**$ 108,532**	$ 175,855	**$ 331,183**	$ 261,830

REVENUE

Revenue for the three and nine month periods ended September 30, 2010 was $172.3 million and $511.4 million, respectively (three and nine month periods ended September 30, 2009, $150.2 million and $459.2 million, respectively). Vermilion's higher revenue year over year was driven by stronger commodity prices during the three and nine month periods ended September 30, 2010 versus the same periods in 2009.

Vermilion's combined crude oil and NGLs price was $76.62 per boe in the third quarter of 2010, an increase of 9% over the $70.00 per boe reported in the third quarter of 2009. The natural gas price realized was $5.64 per mcf in the third quarter of 2010 compared to $4.20 per mcf in the third quarter of 2009, a 34% increase year over year. The prices realized in 2010 reflect the year over year increase in oil and gas reference prices and resulted in higher revenue year over year.

	Three Months Ended		Nine Months Ended	
($M except per boe and per mcf)	**Sept 30, 2010**	**Sept 30, 2009**	**Sept 30, 2010**	**Sept 30, 2009**
Crude oil & NGLs	**$ 134,055**	$ 124,497	**$ 401,552**	$ 349,556
Per boe	**$ 76.62**	$ 70.00	**$ 77.76**	$ 63.94
Natural gas	**38,198**	25,686	**109,827**	109,651
Per mcf	**$ 5.64**	$ 4.20	**$ 5.52**	$ 5.66
Petroleum and natural gas revenue	**$ 172,253**	$ 150,183	**$ 511,379**	$ 459,207
Per boe	**$ 59.82**	$ 53.67	**$ 60.30**	$ 52.80

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

	As at Sept 30, 2010	**As at June 30, 2010**	**As at Mar 31, 2010**	**As at Dec 31, 2009**
France (bbls)	**149,268**	163,515	179,404	167,962
France ($M)	**$ 4,574**	$ 4,663	$ 5,448	5,068
Australia (bbls)	**107,744**	60,146	61	5,387
Australia ($M)	**$ 3,529**	$ 1,784	$ 2	167

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 risks. 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 to not designate any of its price risk management activities as accounting hedges and thus accounts for changes to fair value in net earnings for the period. During the normal course of business, Vermilion enters into fixed price arrangements to sell a portion of its production. Vermilion has elected to exempt these contracts from fair value accounting through the use of the normal purchase and sales exemption. Vermilion does not obtain collateral or other security to support its financial derivatives as management reviews the creditworthiness of the counterparty prior to entering into a derivative contract.

The following table summarizes Vermilion's outstanding financial derivative positions as at September 30, 2010.

Risk Management: Oil	Funded Cost	bbls/d	US $/bbl
Collar - WTI			
April 2010 - December 2010	US $0.00/bbl	750	$ 72.00 - $ 95.00
April 2010 - December 2010	US $0.00/bbl	750	$ 72.00 - $ 95.00
2010	US $0.00/bbl	1,500	$ 70.00 - $ 97.80
2010	US $1.00/bbl	1,500	$ 72.00 - $ 99.00
2010	US $1.00/bbl	1,500	$ 72.00 - $100.65
2010	US $1.50/bbl	750	$ 70.00 - $ 97.40
2010	US $1.50/bbl	750	$ 69.00 - $ 90.15
January 2011 to June 2011	US $1.00/bbl	2,400	$ 80.00 - $107.60
July 2011 to December 2011	US $1.00/bbl	2,400	$ 80.00 - $110.00
Call Spread - BRENT			
2010	US $4.94/bbl	1,100	$ 65.00 - $ 85.00
2011	US $6.08/bbl	960	$ 65.00 - $ 85.00
2010	US $5.64/bbl	700	$ 65.00 - $ 85.00
2011	US $5.15/bbl	600	$ 65.00 - $ 85.00
Risk Management: Natural Gas	**Funded Cost**	**GJ/d**	**$/GJ**
SWAP - AECO			
April 2010 to October 2010	$0.00/GJ	5,000	$5.28
April 2010 to October 2010	$0.00/GJ	5,000	$5.30
January 2010 to October 2011	$0.00/GJ	700	$5.13
Put – AECO			
April 2010 to October 2010	$0.35/GJ	10,000	$4.50
Risk Management: Foreign Exchange		**Notional Principal ($US) / Month**	**Fixed rate ($CDN / $US)**
US Dollar Forward Sale			
July 2010 to December 2010		$2,000,000	$1.07
July 2010 to December 2010		$2,000,000	$1.07
2011		$750,000	$1.07
2011		$750,000	$1.07

The impact of Vermilion's derivative based risk management activities increased the fund flows netback for the nine month period ended September 30, 2010 by $1.04 per boe ($1.32 per boe in the quarter). This compares to an increase of $0.46 per boe in the first nine months of 2009 ($0.39 per boe in the quarter).

ROYALTIES

Consolidated royalties per boe for the three and nine month periods ended September 30, 2010 were $4.51 and $6.39, respectively (three and nine month periods ended September 30, 2009, $8.30 and $7.25, respectively). As a percent of revenue for the three and nine month periods ended September 30, 2010, royalties were 8% and 11%, respectively (three and nine month periods ended September 30, 2009, 15% and 14%, respectively).

In Australia, royalties, as a percentage of revenue for the three and nine month periods ended September 30, 2010 were 6% and 15%, respectively (three and nine month periods ended September 30, 2009, 26% and 24%, respectively). Royalties are reduced by capital investment in the country and as such, royalties for the three and nine month periods ended September 30, 2010 as a percentage of revenue decreased as compared to the same periods in the prior year as a result of higher levels of capital spending in 2010.

In Canada, royalties as a percentage of revenue for the three month period ended September 30, 2010 decreased to 14% as compared to 18% for the same period in 2009. The decrease is largely attributable to changes in the Alberta royalty regime made in 2010 coupled with the impact of lower gas volumes on royalty rates. On a year to date basis, royalties as a percentage of revenue increased to 16% compared to 13% for the same period in 2009 as a result of higher commodity prices in 2010 as well as the effect of gas cost allowance recoveries realized during the second quarter of the prior 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 commodity prices were higher for the three and nine month periods ended September 30, 2010 compared to the same periods in 2009, royalties, as a percent of revenue, decreased to 6% for both periods in 2010 (three and nine month periods ended September 30, 2009, 8% and 8%, respectively).

Production in the Netherlands is not subject to royalties.

	Three Months Ended		Nine Months Ended	
($M except per boe and per mcf)	**Sept 30, 2010**	**Sept 30, 2009**	**Sept 30, 2010**	**Sept 30, 2009**
Crude oil & NGLs	**$ 11,885**	$ 21,992	**$ 49,912**	$ 59,673
Per boe	**$ 6.79**	$ 12.37	**$ 9.67**	$ 10.92
Natural gas	**1,086**	1,248	**4,318**	3,366
Per mcf	**$ 0.16**	$ 0.20	**$ 0.22**	$ 0.17
Royalties	**$ 12,971**	$ 23,240	**$ 54,230**	$ 63,039
Per boe	**$ 4.51**	$ 8.30	**$ 6.39**	$ 7.25

OPERATING COSTS

Consolidated operating costs per boe for the three and nine month periods ended September 30, 2010 were $12.51 and $12.38, respectively (three and nine month periods ended September 30, 2009, $12.24 and $11.81, respectively). Canadian operating costs on a per boe basis for the three month period ended September 30, 2010 have increased to $10.22 compared to $10.10 for the same period in 2009. The increase is attributable to higher costs associated with facility maintenance expenditures. These higher costs were partially offset by lower gas processing fees during the third quarter of 2010 as compared to the same period in 2009. Year to date operating costs for 2010 on a per boe basis decreased to $9.45 compared to $10.01 for the same period in 2009. The decrease is attributable to lower gas processing costs, higher operating fee recoveries and the timing of well intervention work.

Operating costs in France on a per boe basis increased for the three and nine month periods ended September 30, 2010 to $13.88 and $14.06, respectively (three and nine month periods ended September 30, 2009, $11.67 and $11.77, respectively). The increase is a result of higher levels of downhole maintenance spending.

Australian operating costs on a per boe basis for the three month period ended September 30, 2010 increased to $17.38 compared to $14.98 for the same period in 2009. Although the overall operating costs were lower during the quarter, the increase per boe is attributable to lower levels of production resulting in higher per unit costs. The year to date operating costs for 2010 on a per boe basis increased to $17.21 compared to $13.00 for the same period in 2009. The increase is attributable to higher planned maintenance costs related to replacing a bearing on the platform's CALM buoy, higher insurance costs, and lower levels of production.

In the Netherlands, operating costs on a per boe basis for the three and nine month periods ended September 30, 2010 have decreased to $9.26 and $9.65, respectively (three and nine month periods ended September 30, 2009, $14.63 and $15.23, respectively). The decrease is due to higher levels of production coupled with lower fuel and electricity costs during the three and nine month periods ended September 30, 2010 compared to the same periods in 2009.

	Three Months Ended		Nine Months Ended	
($M except per boe and per mcf)	**Sept 30, 2010**	**Sept 30, 2009**	**Sept 30, 2010**	**Sept 30, 2009**
Crude oil & NGLs	**$ 24,504**	$ 22,730	**$ 72,799**	$ 66,110
Per boe	**$ 14.00**	$ 12.78	**$ 14.10**	$ 12.09
Natural gas	**11,511**	11,526	**32,182**	36,639
Per mcf	**$ 1.70**	$ 1.88	**$ 1.62**	$ 1.89
Operating	**$ 36,015**	$ 34,256	**$ 104,981**	$ 102,749
Per boe	**$ 12.51**	$ 12.24	**$ 12.38**	$ 11.81

TRANSPORTATION

Transportation costs are a function of the point of legal transfer of the product and are 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 Canadian gas production, legal title transfers at the intersection of major pipelines whereas the majority of Vermilion's Canadian oil production is sold at the wellhead. In France, the majority of Vermilion's transportation costs are made up of shipping charges incurred in the Aquitaine Basin where oil production is transported by tanker from the Ambès terminal in Bordeaux to the refinery. 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 costs relating to Vermilion's production in these countries.

Transportation costs increased during the three and nine month periods ended September 30, 2010 compared to the same periods in the prior year as a result of ship or pay pipeline tariff charges included in the 2010 results related to the Corrib project. As there is a ceiling on the total tariff payments due in relation to the pipeline, these costs essentially represent a prepayment for future pipeline transportation services.

	Three Months Ended		Nine Months Ended	
($M except per boe)	**Sept 30, 2010**	**Sept 30, 2009**	**Sept 30, 2010**	**Sept 30, 2009**
Transportation	**$ 6,547**	$ 3,734	**$ 20,397**	$ 12,517
Per boe	**$ 2.27**	$ 1.33	**$ 2.41**	$ 1.44

GENERAL AND ADMINISTRATION EXPENSES

General and administration expense per boe for the three and nine month periods ended September 30, 2010 was $3.61 and $3.56, respectively (three and nine month periods ended September 30, 2009, $2.93 and $2.58, respectively). The increases per boe from 2009 is associated with higher legal and advisory fees associated with various projects including the conversion from a trust to a corporation and a restructuring of Vermilion's international holding companies that will result in a more efficient corporate structure as well as lower levels of project specific costs charged to capital assets.

	Three Months Ended		Nine Months Ended	
($M except per boe)	**Sept 30, 2010**	**Sept 30, 2009**	**Sept 30, 2010**	**Sept 30, 2009**
General and administration	**$ 10,393**	$ 8,211	**$ 30,167**	$ 22,464
Per boe	**$ 3.61**	$ 2.93	**$ 3.56**	$ 2.58

EQUITY BASED COMPENSATION EXPENSE

Non-cash equity based compensation expense for the three and nine month periods ended September 30, 2010 was $5.6 million and $14.9 million, respectively (three and nine month periods ended September 30, 2009, $4.7 million and $13.7 million, respectively). This expense relates to the value attributable to long-term incentives granted to officers, employees and directors under the Vermilion Incentive Plan ("VIP plan") and Vermilion's bonus plan. Upon conversion to a corporation, Vermilion's original Trust Unit Award Incentive Plan was replaced with the VIP plan.

	Three Months Ended		Nine Months Ended	
($M except per boe)	**Sept 30, 2010**	**Sept 30, 2009**	**Sept 30, 2010**	**Sept 30, 2009**
Equity based compensation	**$ 5,567**	$ 4,706	**$ 14,938**	$ 13,676
Per boe	**$ 1.93**	$ 1.68	**$ 1.76**	$ 1.57

INTEREST EXPENSE

Interest expense for the three and nine month periods ended September 30, 2010 was $3.2 million and $9.9 million, respectively (three and nine month periods ended September 30, 2009, $6.4 million and $9.4 million, respectively). Interest expense for the third quarter of 2010 has decreased from the same period in 2009 due to lower debt levels. Interest for the year to date period in 2010 has increased from the same period in 2009 despite slightly lower average debt levels, as a result of higher average interest rates and increased facilities fees.

	Three Months Ended		Nine Months Ended	
($M except per boe)	**Sept 30, 2010**	**Sept 30, 2009**	**Sept 30, 2010**	**Sept 30, 2009**
Interest	**$ 3,159**	$ 6,361	**$ 9,888**	$ 9,398
Per boe	**$ 1.10**	$ 1.47	**$ 1.17**	$ 0.82

DEPLETION, DEPRECIATION AND ACCRETION EXPENSES

Depletion, depreciation and accretion expenses per boe for the three and nine month periods ended September 30, 2010 were $24.86 and $22.41, respectively (three and nine month periods ended September 30, 2009, $22.73 and $22.06, respectively). Depletion for the third quarter of 2010 has increased from the same period in 2009 due to the issuance of common shares in exchange for the remaining exchangeable shares upon the corporate conversion which resulted in an increase to capital assets of $189.9 million (see Note 5 of the consolidated interim financial statements). Depletion, depreciation and accretion rates for the year to date periods in 2010 have remained relatively consistent from the rates per boe for the same periods in 2009.

	Three Months Ended		Nine Months Ended	
($M except per boe)	**Sept 30, 2010**	**Sept 30, 2009**	**Sept 30, 2010**	**Sept 30, 2009**
Depletion, depreciation and accretion	**$ 71,590**	$ 63,602	**$ 190,005**	$ 191,856
Per boe	**$ 24.86**	$ 22.73	**$ 22.41**	$ 22.06

TAXES

Vermilion is subject to current taxes in France, the Netherlands and Australia. Current taxes for the three and nine month periods ended September 30, 2010 increased to $15.3 million and $43.4 million, respectively (three and nine month periods ended September 30, 2009, $6.5 million and $25.7 million, respectively). The increases are attributable to the higher year over year revenues associated with stronger commodity prices. As a result of Vermilion's Canadian tax pools, the Company does not presently pay income taxes in Canada.

	Three Months Ended		Nine Months Ended	
($M except per boe)	**Sept 30, 2010**	**Sept 30, 2009**	**Sept 30, 2010**	**Sept 30, 2009**
Current taxes	**$ 15,339**	$ 6,456	**$ 43,352**	$ 25,745
Per boe	**$ 5.33**	$ 2.31	**$ 5.11**	$ 2.96

FOREIGN EXCHANGE

During the nine months ended September 30, 2010, a combined realized and unrealized foreign exchange gain of $12.3 million was recognized versus $26.5 million in 2009. The gain through September 30, 2010 is comprised of a realized gain of $5.5 million associated with cash repatriations and an unrealized, non-cash gain of $6.8 million. The year to date unrealized gain is largely related to the translation to Canadian dollars of foreign currency denominated future income taxes and asset retirement obligations. Since December 31, 2009, the Canadian dollar has strengthened against the Euro resulting in this unrealized gain.

	Three Months Ended		Nine Months Ended	
($M except per boe)	**Sept 30, 2010**	**Sept 30, 2009**	**Sept 30, 2010**	**Sept 30, 2009**
Foreign exchange loss (gain)	**$ 17,170**	$ (14,227)	**$ (12,338)**	$ (26,508)
Per boe	**$ 5.97**	$ (4.29)	**$ (1.45)**	$ (2.79)

EARNINGS

Net earnings for the three and nine month periods ended September 30, 2010 were $8.9 million or $0.11 per share and $95.4 million or $1.17 per share, respectively (three and nine month periods ended September 30, 2009, $17.8 million or $0.25 per share and $62.6 million or $0.88 per share, respectively). The increase in earnings for the year to date period in 2010 versus 2009 is largely due to higher revenues associated with stronger commodity prices in 2010 as compared to the prior year.

SUMMARY OF QUARTERLY RESULTS

	Q3/10	Q2/10	Q1/10	Q4/09	Q3/09	Q2/09	Q1/09	Q4/08
Petroleum and natural gas revenue	**$** 172,253	$ 169,545	$ 169,581	$ 180,544	$ 150,183	$ 162,788	$ 146,236	$ 185,329
Net earnings	**$** 8,911	$ 44,027	$ 42,508	$ 122,900	$ 17,834	$ 24,880	$ 19,884	$ 13,755
Net earnings per share								
Basic	**$** 0.11	$ 0.55	$ 0.53	$ 1.60	$ 0.25	$ 0.35	$ 0.28	$ 0.20
Diluted	**$** 0.10	$ 0.54	$ 0.53	$ 1.59	$ 0.25	$ 0.35	$ 0.28	$ 0.19

LIQUIDITY AND CAPITAL RESOURCES

Vermilion's net debt as at September 30, 2010 was $238.3 million compared to $120.4 million as at December 31, 2009.

As at September 30, 2010, Vermilion had a syndicated revolving credit facility allowing for maximum borrowings of $675 million. The revolving period under the revolving credit facility is expected to expire in June 2011 and may be extended for an additional period of up to 364 days at the option of the lenders. If the lenders convert the revolving credit facility to a non-revolving credit facility, the amounts outstanding under the facility become repayable 24 months after the end of the revolving period. Various borrowing options are available under the facility including prime rate based advances and bankers' acceptance loans.

The revolving credit facility is secured by various fixed and floating charges against subsidiaries of Vermilion. Under the terms of the revolving credit facility, Vermilion must maintain a ratio of total borrowings under the facility to consolidated earnings before interest, income taxes, depreciation, accretion and certain other non-cash items of not greater than 3.0.

The amount available to Vermilion under the facility is reduced by outstanding letters of credit associated with Vermilion's operations totalling $1.9 million as at September 30, 2010.

Effective January 15, 2010, Vermilion reinstated the DRIP. Cash flows from financing activities for the nine months ended September 30, 2010 included cash flows related to the issuance of shares pursuant to the DRIP of $27.4 million and there were no proceeds related to the program in 2009.

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 will initially be 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, 2010, Vermilion's asset retirement obligations were $243.8 million compared to $237.1 million as at December 31, 2009. The increase is largely attributable to accretion on the obligation partially offset by the impact of exchange rates on foreign currency denominated obligations.

DIVIDENDS

Vermilion maintained monthly dividends at $0.19 per share for the three and nine month periods ended September 30, 2010 and declared dividends totalling $139.1 million in the first nine months of 2010 compared to $121.4 million for the same period in 2009.

Sustainability of Dividends

($M)	Three Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2010	Year Ended Dec 31, 2009	Year Ended Dec 31, 2008
Cash flows from operating activities	**$ 106,575**	**$ 294,091**	$ 230,316	$ 660,135
Net earnings	**$ 8,911**	**$ 95,446**	$ 185,498	$ 229,189
Dividends declared	**$ 47,583**	**$ 139,080**	$ 166,385	$ 158,674
Excess of cash flows from operating activities over cash dividends declared	**$ 58,992**	**$ 155,011**	$ 63,931	$ 501,461
(Shortfall) excess of net earnings over cash dividends declared	**$ (38,672)**	**$ (43,634)**	$ 19,113	$ 70,515

Excess cash flows from operating activities over cash dividends declared are used to fund capital expenditures, asset retirement costs and debt repayments. The current year shortfalls of net earnings over dividends declared is a result of non-cash charges such as depletion, depreciation and accretion which have no immediate impact on dividend sustainability.

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.

Over the next two years, the Corrib project 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 costs. Vermilion currently intends to finance any shortfall primarily with debt.

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.

SHAREHOLDERS' EQUITY

During the nine month period ended September 30, 2010, 9,128,007 shares were issued pursuant to the conversion of exchangeable shares, the DRIP and Vermilion's equity based compensation programs. Shareholders' capital increased by $320.8 million as a result of the issuance of those shares.

As at November 4, 2010, there were 88,768,838 shares outstanding.

NON-CONTROLLING INTEREST – EXCHANGEABLE SHARES

Vermilion had previously recorded non-controlling interest attributed to the issued and outstanding exchangeable shares.

The non-controlling interest on the consolidated balance sheets represented the book value of exchangeable shares plus accumulated earnings attributable to the outstanding exchangeable shares. The reduction in net income represented the net income attributable to the exchangeable shareholders for the period. As the exchangeable shares were converted to common shares, Shareholders' capital was increased for the fair value of Vermilion shares issued.

In connection with the corporate conversion, Vermilion issued 7,586,546 common shares in exchange for the remaining 4,006,753 exchangeable shares in Vermilion Resources Ltd. based on an exchange ratio of 1.89344. The conversion of exchangeable shares was recorded as an acquisition of the non-controlling interest at fair value. 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 that amount 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.

RISK MANAGEMENT

Vermilion is exposed to various market and operational risks. For a detailed discussion of these risks, please see the Trust's 2009 Annual Report.

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 and operating costs 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 goodwill are based on estimates that Vermilion expects to realize;
vii. Equity compensation expense is determined using accepted fair value approaches which rely on historical data and certain estimates made by management; and
viii. The amount recorded as due to the vendor pursuant to the Corrib acquisition is dependent on management's estimate of the timing of first gas.

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, 2010.

Vermilion uses a variety of derivatives including funded and costless collars and puts to manage the risk associated with fluctuating commodity prices on the sale of crude oil and natural gas. 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 TRANSITION ("IFRS")

Background

Publicly accountable enterprises such as Vermilion must begin to report their financial results under IFRS in 2011. Accordingly, in 2008, Vermilion formed an internal IFRS transition team and retained the services of a large international public accounting firm to advise Vermilion in its conversion program. Initially, the transition team focused on completing a scoping diagnostic to determine the areas of significant difference between Canadian GAAP and IFRS and the related reporting and information system issues. Since completing the scoping diagnostic, Vermilion's transition team has drafted accounting policy papers which are reviewed by the advising public accounting firm.

Project Status

Vermilion is currently finalizing its IFRS accounting policies and the Company has actively worked with peer entities to select, when appropriate and practicable, consistent accounting policies in an effort to preserve comparability. Vermilion remains focused on the transition to IFRS and is preparing financial statements under both Canadian GAAP and IFRS for 2010 to provide for comparative financial statements after the official changeover in 2011.

Areas of Focus

The following discussion provides additional information on the key areas of focus; however, Vermilion cannot guarantee that this information will not change as the date of transition approaches. Vermilion will continue to communicate information in relation to its conversion process as it becomes available.

In general, the changes associated with IFRS impact the accounting for non-cash items. Accordingly, Vermilion believes that most of its key performance measures such as fund flows from operations, net debt and capital expenditures, will be minimally impacted by the transition to IFRS.

Accounting for Capital Assets Including Impairment

There are a number of significant differences associated with accounting for capital assets under IFRS versus Canadian GAAP which will impact Vermilion. Under Canadian GAAP's full-cost accounting, expenditures related to oil and gas assets are aggregated on a country-by-country basis for depletion and impairment testing purposes. Under IFRS, the unit of account for both depletion ("depletion units") and impairment testing ("cash generating units") must be significantly smaller and accordingly, non-cash impairments are more likely under IFRS than under Canadian GAAP full-cost accounting. In addition, Canadian GAAP specifies a two part impairment test approach which is designed to reduce the frequency of impairment writedowns. IFRS does not permit this two part approach and instead a company must determine the recoverable amount of an asset when there are indications that it may be impaired. Unlike Canadian GAAP, IFRS generally requires that impairments be reversed in future periods if the recoverable amount of an asset increases beyond its carrying amount (as a result of increased commodity prices, for example). At present, Vermilion has identified a total of 72 depletion units and 12 cash generating units.

Vermilion intends to calculate depletion under IFRS using proved plus probable reserves as the reserve base. Under Canadian GAAP, depletion must be calculated using proved reserves. Vermilion believes this approach better reflects the fact that the balance sheet includes costs that are attributable to probable reserves.

On July 23, 2009, the International Accounting Standards Board ("IASB") issued amendments to IFRS 1, "First-time Adoption of International Financial Reporting Standards" that greatly reduced the amount of effort required upon transition to IFRS for entities such as Vermilion that have historically applied the full-cost method of accounting. Under the amendment, Canadian GAAP full cost pools are allocated to smaller units of account at the transition date of January 1, 2010 based on either reserve volumes or values and, currently, Vermilion intends to rely on this exemption and perform this allocation based on reserve values.

Vermilion's current accounting systems and processes are capable of accounting for capital assets at the more detailed level required under IFRS.

Functional Currency

Under Canadian GAAP, Vermilion concluded that the functional currency of its foreign operating subsidiaries is the Canadian dollar. As a result of differences in the requirements for functional currency determination, Vermilion has concluded that under IFRS, the functional currency of its foreign operating subsidiaries will be their local currencies. As a consequence of this change, gains and losses related to the translation of the financial statements of these subsidiaries will be recorded through other comprehensive income and will not impact net income. In addition, the capital asset accounts of Vermilion's foreign operating subsidiaries will be translated to Canadian dollars at the foreign exchange rates in effect at the balance sheet date whereas presently, these capital asset accounts are translated at historical rates of exchange.

Income Taxes

Vermilion has evaluated the differences between International Accounting Standard 12, "Income Taxes" and the relevant Canadian GAAP requirements and has concluded that the impact on the deferred tax accounting will be minimal.

Vermilion has concluded that under IFRS, Petroleum Resource Rent Tax ("PRRT") paid in Australia will be classified as an income tax. Under Canadian GAAP, Vermilion presents PRRT as a royalty.

Accounting for Trust Units and Exchangeable Shares

In Canada, units issued by investment trusts are redeemable by unitholders and under IFRS, unless certain specific criteria are met to receive an exemption, redeemable securities cannot be classified as permanent equity. Although Vermilion converted to a corporation in September 2010, Vermilion needed to determine if it met the criteria for this exemption to conclude on the appropriate presentation for the pre-conversion period. After reviewing this issue, Vermilion believes it meets the required criteria to present its trust units as equity for the period prior to the corporate conversion.

Vermilion has concluded that this exemption does not extend to its exchangeable shares and accordingly, the exchangeable shares will be presented as a liability carried at market value for the period prior to the corporate conversion. This difference will result in a reduction to retained earnings upon transition to IFRS of approximately $117.0 million.

Equity Based Compensation

Vermilion believes that the redemption feature associated with the trust units require it to present the recognized, but unvested value of equity based compensation awards as a liability through the date of the corporate conversion. The carrying amount of the liability will be remeasured at each reporting date and will be based on the market value of the underlying trust units. The changes in the liability will be reflected as a non-cash expense or recovery in the statement of earnings. Upon conversion to a corporation, the outstanding liability is reclassified to contributed surplus.

Under IFRS, Vermilion will estimate the amount of forfeitures expected in relation to its equity based compensation plan and will reflect such estimates in the related expense. Under Canadian GAAP, forfeitures are accounted for as they occur.

Asset Retirement Obligations

The basic fundamental premise underlying the accounting for asset retirement obligations is consistent between Canadian GAAP and IFRS, however under the latter, the liability is remeasured at each reporting date using the current risk free interest rate. As Vermilion is electing to use the IFRS 1 deemed cost accounting exemption noted above, upon transition Vermilion will recognize its asset retirement obligations at the amounts required under IFRS and will record the difference between those amounts, and the Canadian GAAP values, against retained earnings.

Revenue

Under IFRS, Vermilion has concluded that it is appropriate to present revenue net of royalties on the income statement. Vermilion will continue to disclose revenue, gross of royalties, as a non-GAAP measure in its MD&A and in its netback calculations.

Issues Associated with the Initial Adoption of IFRS

In addition to the IFRS 1 deemed cost accounting exemption, Vermilion has concluded that it will use additional exemptions associated with business combinations and cumulative translation differences related to the change in the functional currency of Vermilion's operating subsidiaries as described above.

As noted previously, Vermilion has conducted a review of its accounting systems and processes and, as a result of various upgrades that have been completed over recent years, Vermilion's current systems and processes will accommodate the transition to IFRS.

Vermilion has established internal controls associated with the IFRS transition which include approvals at various stages of the project and Vermilion continues to work closely with its advising public accounting firm in relation to the IFRS conversion.

ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

On February 13, 2008, the Accounting Standards Board ("AcSB") confirmed that the transition date to IFRS from Canadian GAAP will be January 1, 2011 for publicly accountable enterprises such as Vermilion.

In January 2009, the CICA issued Section 1582 – "Business Combinations", Section 1601– "Consolidated Financial Statements" and Section 1602 – "Non-controlling Interests". These new sections are effective for years beginning on or after January 1, 2011 with earlier adoption permitted. Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners, members or participants. Finally, acquisition costs are not part of the consideration and, with the exception of share issue costs, acquisition-related costs are to be expensed when incurred. Vermilion is currently assessing the potential impact and whether or not it will elect to adopt these standards in advance of the transition to IFRS.

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
$MM	million dollars

NETBACKS (6:1)	Three Months Ended Sept 30, 2010			Nine Months Ended Sept 30, 2010			Three Months Ended Sept 30, 2009	Nine Months Ended Sept 30, 2009
	Oil & NGLs $/bbl	Natural Gas $/mcf	Total $/boe	Oil & NGLs $/bbl	Natural Gas $/mcf	Total $/boe	Total $/boe	Total $/boe
Canada								
Price	$ 70.23	$ 4.26	**$ 42.28**	$ 72.17	$ 4.71	**$ 43.61**	$ 32.73	$ 34.05
Realized hedging gain or loss	-	0.59	**2.22**	-	0.34	**1.33**	-	-
Royalties	(13.60)	(0.27)	**(6.11)**	(15.52)	(0.35)	**(6.80)**	(5.94)	(4.56)
Transportation	(1.60)	(0.22)	**(1.43)**	(1.86)	(0.22)	**(1.50)**	(1.32)	(1.26)
Operating costs	(9.77)	(1.75)	**(10.22)**	(9.67)	(1.55)	**(9.45)**	(10.10)	(10.01)
Operating netback	$ 45.26	$ 2.61	**$ 26.74**	$ 45.12	$ 2.93	**$ 27.19**	$ 15.37	$ 18.22
France								
Price	$ 78.87	$ 9.50	**$ 78.37**	$ 78.97	$ 9.23	**$ 78.57**	$ 73.11	$ 63.03
Realized hedging gain or loss	1.93	-	**1.88**	2.07	-	**2.03**	1.44	1.74
Royalties	(4.90)	(0.25)	**(4.82)**	(5.17)	(0.13)	**(5.10)**	(5.65)	(5.35)
Transportation	(3.28)	-	**(3.21)**	(3.61)	-	**(3.55)**	(3.12)	(3.67)
Operating costs	(13.71)	(3.55)	**(13.88)**	(13.81)	(4.72)	**(14.06)**	(11.67)	(11.77)
Operating netback	$ 58.91	$ 5.70	**$ 58.34**	$ 58.45	$ 4.38	**$ 57.89**	$ 54.11	$ 43.98
Netherlands								
Price	$ 58.65	$ 7.39	**$ 44.50**	$ 57.48	$ 6.71	**$ 40.40**	$ 40.33	$ 56.00
Operating costs	-	(1.56)	**(9.26)**	-	(1.62)	**(9.65)**	(14.63)	(15.23)
Operating netback	$ 58.65	$ 5.83	**$ 35.24**	$ 57.48	$ 5.09	**$ 30.75**	$ 25.70	$ 40.77
Australia								
Price	$ 77.98	$ -	**$ 77.98**	$ 79.73	$ -	**$ 79.73**	$ 69.31	$ 68.23
Royalties	(4.85)	-	**(4.85)**	(11.83)	-	**(11.83)**	(18.34)	(16.40)
Operating costs	(17.38)	-	**(17.38)**	(17.21)	-	**(17.21)**	(14.98)	(13.00)
Operating netback	$ 55.75	$ -	**$ 55.75**	$ 50.69	$ -	**$ 50.69**	$ 35.99	$ 38.83
Total Company								
Price	$ 76.62	$ 5.64	**$ 59.82**	$ 77.76	$ 5.52	**$ 60.30**	$ 53.67	$ 52.80
Realized hedging gain or loss	0.87	0.34	**1.32**	0.91	0.21	**1.04**	0.39	0.46
Royalties	(6.79)	(0.16)	**(4.51)**	(9.67)	(0.22)	**(6.39)**	(8.30)	(7.25)
Transportation	(1.83)	(0.49)	**(2.27)**	(1.97)	(0.51)	**(2.41)**	(1.33)	(1.44)
Operating costs	(14.00)	(1.70)	**(12.51)**	(14.10)	(1.62)	**(12.38)**	(12.24)	(11.81)
Operating netback	$ 54.87	$ 3.63	**$ 41.85**	$ 52.93	$ 3.38	**$ 40.16**	$ 32.19	$ 32.76
General and administration			**(3.61)**			**(3.56)**	(2.93)	(2.58)
Interest			**(1.10)**			**(1.17)**	(1.47)	(0.82)
Realized foreign exchange			**0.80**			**0.65**	(0.67)	(0.72)
Other income			**0.20**			**0.07**	(0.02)	(0.01)
Current taxes			**(5.33)**			**(5.11)**	(2.31)	(2.96)
Fund flows netback			**$ 32.81**			**$ 31.04**	$ 24.79	$ 25.67
Depletion, depreciation and accretion			**(24.86)**			**(22.41)**	(22.73)	(22.06)
Future income taxes			**5.55**			**4.69**	1.74	2.02
Other income or loss			**0.48**			**(0.36)**	1.59	0.91
Unrealized foreign exchange			**(6.77)**			**0.80**	4.96	3.51
Non-controlling interest – exchangeable shares			**(0.11)**			**(0.97)**	(0.65)	(0.71)
Equity in affiliate			**-**			**-**	(0.52)	(0.36)
Unrealized gain or loss on derivative instruments			**(2.10)**			**0.21**	(1.11)	(0.20)
Equity based compensation			**(1.93)**			**(1.76)**	(1.68)	(1.57)
Earnings netback			**$ 3.07**			**$ 11.24**	$ 6.39	$ 7.21

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

VERMILION ENERGY

Corporate Information

DIRECTORS

Larry J. Macdonald [1, 2, 3, 4, 5]
Chairman & CEO, Point Energy Ltd.
Calgary, Alberta

W. Kenneth Davidson [2, 3]
Toronto, Ontario

Lorenzo Donadeo
Calgary, Alberta

Claudio A. Ghersinich [2, 4, 5]
Executive Director, Carrera Investments Corp.
Calgary, Alberta

Joseph F. Killi [2, 3]
Chairman,
Parkbridge Lifestyle Communities Inc.
Vice Chairman, Realex Properties Corp.
Calgary, Alberta

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

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

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

ABBREVIATIONS

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

Paul L. Beique
Vice President Capital Markets

Mona Jasinski, M.B.A., C.H.R.P.
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

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

Alberta Treasury Branches
Calgary, Alberta

Canadian Imperial Bank of Commerce
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

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