UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 40-F

¨ Registration statement pursuant to Section 12 of the Securities Exchange Act of 1934; or

þ Annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 2010
Commission file number: No. 0-50832

Vermilion Energy Inc.

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

(Province or other jurisdiction of incorporation or organization)
1311

(Primary standard industrial classification code number)
N/A

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

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

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

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

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

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

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

þ **Annual Information Form** þ **Audited Annual Financial Statements**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **89,177,604 shares**

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

þ **Yes** o No

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

o **Yes** o No

Principal Documents

The following documents have been filed as part of this Annual Report on Form 40-F:
Exhibit 99.1 - Annual Information Form for the fiscal year ended December 31, 2010
Exhibit 99.2 - Management's Discussion and Analysis for the fiscal year ended December 31, 2010; and
Exhibit 99.3 - Audited Annual Financial Statements for the fiscal year ended December 31, 2010

DISCLOSURE CONTROLS AND PROCEDURES

A. Evaluation of Disclosure Controls and Procedures

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

B. Management's Annual Report on Internal Controls.

See page 3 of the 2010 Audited Financial Statements included as Exhibit 99.3 to this report.

C. Auditor Attestation

See page 4 of the 2010 Audited Financial Statements included as Exhibit 99.3 to this report.

D. Changes in Internal Control Over Financial Reporting

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

NOTICES REQUIRED BY RULE 104 OF REGULATION BTR

None

AUDIT COMMITTEE FINANCIAL EXPERT

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

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

CODE OF ETHICS

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

PRINCIPAL ACCOUNTANT FEES AND SERVICES

See page 36 of the Annual Information Form for the year ended December 31, 2010 included as Exhibit 99.1 to this report.

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Payments due by period (Cdn $000’s)

	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt obligations [1]	$ 304,100	$ -	$ 304,100	$ -	$ -
Amount due pursuant to acquisition of Corrib	134,271	-	134,271	-	-
Operating lease obligations	78,765	5,864	13,690	13,690	45,521
Total	$ 517,136	$ 5,864	$ 452,061	$ 13,690	$ 45,521

[1] Does not include interest.

IDENTIFICATION OF THE AUDIT COMMITTEE

See page 35 of the Annual Information Form for the year ended December 31, 2010 included as Exhibit 99.1 to this report.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

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

B. Consent to Service of Process

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

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

SIGNATURES

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

VERMILION ENERGY INC (the Registrant)

Date: March 10, 2011

By: *("Curtis Hicks")*
Curtis W. Hicks
Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibits		Description
99.1		Annual Information Form for the Year Ended December 31, 2010 as at March 10, 2011
99.2		Management's Discussion and Analysis from the 2010 Annual Report to Shareholders
99.3		Audited Annual Financial Statements for the Year Ended December 31, 2010
99.4		Consent Letter from Independent Registered Chartered Accountants
99.5		Consent of Independent Engineers GLJ Petroleum Consultants Ltd.
99.6	(2)	Officers' Certifications Required by Rule 13a-14(a) or Rule 15d-14(a)
99.7	(2)	Officers' Certifications Required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code



EXHIBIT 99.1

VERMILION ENERGY INC.

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2010

Dated March 10, 2011

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GLOSSARY OF TERMS

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

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

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

"AGCA" means Alberta Gas Cost Allowance;

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

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

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

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

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

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

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

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

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

"GAAP" means Canadian Generally Accepted Accounting Principles;

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

"**GLJ Report**" means the independent engineering evaluation of certain oil, NGL and natural gas interests of the Company prepared by GLJ dated February 9, 2011 and effective December 31, 2010;

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

"**Meeting**" means the annual meeting of Shareholders of the Company to be held on May 6, 2011 (or, if adjourned, such other date on which the meeting is held);

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

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

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

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

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

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

"**TSX**" means the Toronto Stock Exchange;

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

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

"Unitholders" means former unitholders of the Trust;

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

"**VRL**" means Vermilion Resources Ltd.;

Conventions

Unless otherwise indicated, references herein to "$" or "dollars" are to Canadian dollars. All financial information herein has been presented in Canadian dollars in accordance with generally accepted accounting principles in Canada.

Abbreviations

Oil and Natural Gas Liquids	
Bbl	Barrel
Mbbl	thousand barrels
Bbl/d	barrels per day
NGL	natural gas liquids
Natural Gas	
Mcf	thousand cubic feet
MMcf	million cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
MMBtu	million British Thermal Units
Other	
API	American Petroleum Institute
°API	An indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28 °API or higher is generally referred to as light crude oil.
boe	barrel of oil equivalent of natural gas and crude oil on the basis of 1 boe for 6 (unless otherwise stated) Mcf of natural gas (this conversion factor is an industry accepted norm and is not based on either energy content or current prices)
$M	thousand dollars
$MM	million dollars
Mboe	1,000 barrels of oil equivalent
MMboe	million barrels of oil equivalent
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade.

Conversion

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

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

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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

- capital expenditures;
- business strategy and objectives;
- reserve quantities and the discounted present value of future net cash flows from such reserves;
- net 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;
- 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 all or any of which may prove to be incorrect. In addition to any other assumptions identified in this annual information form, assumptions have been made regarding, among other things:

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

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

These risks and uncertainties include but are not limited to:

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

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

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

PRESENTATION OF OIL AND GAS RESERVES AND PRODUCTION INFORMATION

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

NON-GAAP MEASURES

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

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

“Cash dividends net” is calculated as actual cash dividends paid or payable for a given period. Cash dividends 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 the Company is being used to fund dividends.

VERMILION ENERGY INC.

General

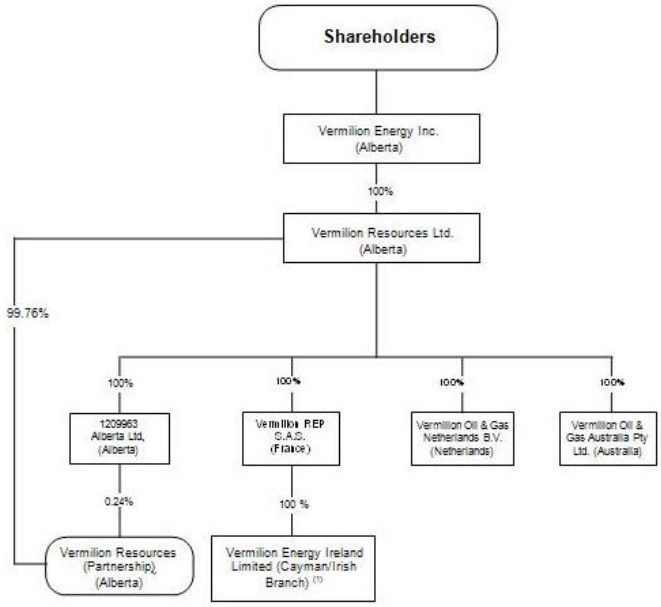
Vermilion Energy Inc. is the successor to the Trust, following the completion of the conversion of the Trust from an income trust to a corporate structure by way of a court approved plan of arrangement under the ABCA on September 1, 2010. Pursuant to the Conversion Arrangement, Unitholders exchanged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

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

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

Organizational Structure of the Company

The following diagram describes the intercorporate relationships among the Company and each of its material subsidiaries as at December 31, 2010, where each principal subsidiary was incorporated or formed, the percentage of votes attaching to all voting securities of each subsidiary beneficially owned by Vermilion and held by such subsidiaries to the Company, and from the Company to the Shareholders. Reference should be made to the appropriate sections of this annual information form for a complete description of the structure of the Company.



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

Summary Description of the Business

Vermilion Energy Inc.

The Company is actively engaged in the business of oil and natural gas exploitation, development, acquisition and production in Australia, Canada, France, Ireland and the Netherlands. The Company's business plan is to maximize returns to the Company from its oil and natural gas properties and related assets. Where possible, the Company will seek to expand its reserve base through the selective addition of high-quality, long-life reserves with low risk development opportunities.

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

Vermilion Resources Ltd.

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

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

History of Vermilion

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

On January 31, 2008, Vermilion closed the acquisition of a package of producing assets in the Drayton Valley area for $47 million.

On July 30, 2009, Vermilion completed the acquisition of an 18.5% non-operated interest in the Corrib field located approximately 83 kilometres off the northwest coast of Ireland for an aggregate purchase price comprised of US$100 million paid on closing and an obligation for an additional future payment, the amount of which will vary from an estimated US$300 million to US$135 million, depending on the date when first commercial gas from the Corrib field is achieved. Pursuant to the acquisition agreement governing the Corrib acquisition, Vermilion assumed its share of future capital expenditure obligations in order to reach first commercial gas. Beginning at the effective date of January 1, 2009, these costs are anticipated to range up to US$400 million, net to the acquired interest. On September 29, 2009, Vermilion filed a business acquisition report in connection with the Corrib acquisition, which may be found on SEDAR at www.sedar.com.

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

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

On September 1, 2010, Vermilion converted from an income trust to a dividend paying corporation. Approval was granted from the Trust's Unitholders to the Conversion Arrangement at a special meeting of Unitholders of the Trust held on August 31, 2010.
As at January 31, 2011, Vermilion had 316 full time employees of which 160 employees were located in its head office, 27 employees in its Canadian field offices, 89 employees in France, 14 employees in the Netherlands and 26 employees in Australia.

NARRATIVE DESCRIPTION OF THE BUSINESS

Stated Business Objectives

The Company is actively engaged in the business of oil and natural gas exploitation, development, acquisition and production in Australia, Canada, France, Ireland and the Netherlands. The Company's business plan is to maximize returns to the Company from its oil and natural gas properties and related assets. Where possible, the Company will seek to expand its reserve base through the selective addition of high-quality, long-life reserves with low risk development opportunities.

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

Description of Properties

The following is a description of the oil and natural gas properties, plants, facilities and installations in which Vermilion has an interest and that are material to Vermilion's operations and exploration activities. The production numbers stated refer to Vermilion's working interest share before deduction of Crown, freehold and other royalties. Reserve amounts are stated, before deduction of royalties, as at December 31, 2010, based on forecast cost and price assumptions as evaluated in the GLJ Report.

Canada Assets

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

In Canada, Vermilion holds an average working interest of 68% in 396,291 (269,409 net) acres of developed land, 576 (393 net) producing natural gas wells and 476 (178 net) producing oil wells as at December 31, 2010. Vermilion operates five natural gas plants and has an ownership interest in five additional plants, resulting in combined gross processing capacity of over 89 MMcf/d. In addition, Vermilion has capacity of over 6,000 Bbl/d of oil in five operated oil batteries. Construction is underway for a 15,000 Bbl/d oil battery to handle the Cardium production.

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

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

For the year ended December 31, 2010, production in Canada averaged approximately 44 MMcf/d of natural gas and 4,205 Bbl/d of oil and NGL. Revenues from the sale of natural gas were $72.7 million in the year (2009 - $72.6 million) and $112.5 million from oil and NGLs (2009 - $79.5 million).

The GLJ Report assigned 34,618 Mboe of total proved reserves and 53,309 Mboe of proved plus probable reserves to Vermilion's properties located in Canada as at December 31, 2010.

France Assets

Vermilion's main producing areas in France are located in the Aquitaine Basin which is southwest of Bordeaux, France and in the Paris Basin, located just east of Paris. Vermilion's assets in France are primarily oil producing properties. The two major fields in the Paris Basin area are Champotran and Chaunoy. The two major fields in the Aquitaine Basin are Parentis and Cazaux. Vermilion operates eight oil batteries with current producing capacities of greater than 10,000 Bbls/d, however, expansion above this, could be easily accommodated. Vermilion holds an 81% working interest in 168,288 acres of developed land in the Aquitaine and Paris Basins. Vermilion had 217 (190 net) producing oil wells in France as at December 31, 2010.

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

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

For the year ended December 31, 2010, production in France averaged approximately 8,347 Bbl/d of oil and 0.9 MMcf/d of natural gas. Revenues from oil sales were $245.7 million in the year (2009 - $199.9 million) and $3.3 million from the sale of natural gas (2009 - $3.2 million).

The GLJ Report assigned 26,724 Mboe of total proved reserves and 39,728 Mboe of proved plus probable reserves to Vermilion's properties located in France.

Netherlands Assets

Vermilion's Netherlands assets consist of eight onshore concessions and one offshore concession located in the northern part of the country. Production consists solely of natural gas with a small amount of related condensate. The assets include three operated gas treatment centres that have a combined total capacity of 240 MMcf/d. Vermilion holds an approximate 63% working interest over the nine concessions in 479,495 (303,942 net) acres of developed land and 47 (37 net) producing gas wells as at December 31, 2010.

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

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

For the year ended December 31, 2010, Vermilion's production in the Netherlands averaged 35 Bbl/d of NGL and 28.3 MMcf/d of natural gas. Revenues from the sale of natural gas were $72.8 million in the year (2009 - $67.6 million) and $1.0 million from NGL sales (2009 - $0.5 million).

The GLJ Report assigned 6,548 Mboe of total proved reserves and 12,100 Mboe of proved plus probable reserves to Vermilion's properties located in the Netherlands.

Australia Assets

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

The primary North West Shelf Australian seasonal impacts are caused by cyclones. During cyclone season (December to March) we may have to reduce production rates at our offshore facilities as a result of the inability to offload to tankers due to bad weather. Cyclones may also cause production shut-ins due to the evacuation of staff or damage to the equipment on the platform.

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

For the year ended December 31, 2010, Vermilion's production in the Australia averaged 7,354 Bbl/d of oil. Revenues from oil sales were $219.7 million in the year (2009 - $216.4 million).

The GLJ Report assigned 13,198 Mboe of total proved reserves and 19,698 Mboe of proved plus probable reserves to Vermilion's properties located in Australia.

Ireland Assets

In 2009, Vermilion acquired an 18.5% interest in the offshore Corrib gas field, located approximately 83 kilometres off the northwest coast of Ireland. The property is currently not producing; however, first commercial gas from the Corrib field is currently expected in 2013.

Vermilion announced on January 20, 2011, that An Bord Pleanála has granted permission for the construction of the Corrib gas onshore pipeline in Ireland. The remaining two pipeline approvals are expected by the second quarter of 2011.

The GLJ Report assigned 15,333 Mboe of total proved reserves and 17,494 Mboe of proved plus probable reserves to Vermilion's property in Ireland.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

Reserves and Future Net Revenue

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

Information contained in this section is effective December 31, 2010 unless otherwise stated. The reserves information was prepared on February 9, 2011.

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

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

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

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

The following tables may not total due to rounding.

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

	Light and Medium Oil		Heavy Oil		Natural Gas		Natural Gas Liquids			BOE
	Gross[1] (Mbbl)	Net[1] (Mbbl)	Gross[1] (MMcf)	Net[1] (Mbbl)	Gross[1] (MMcf)	Net[1] (MMcf)	Gross[1] (Mbbl)	Net[1] (Mbbl)	Gross (Mbbl)	Net (Mbbl)
Proved Developed Producing[2][5]										
Australia	13,198	13,198	-	-	-	-	-	-	13,198	13,198
Canada	6,234	5,286	21	20	77,537	68,823	2,767	1,756	21,945	18,532
France	24,275	22,372	-	-	2,481	2,481	-	-	24,689	22,785
Ireland	-	-	-	-	-	-	-	-	-	-
Netherlands	-	-	-	-	23,567	23,567	33	33	3,961	3,961
Total Proved Developed Producing	43,707	40,856	21	20	103,585	94,872	2,800	1,789	63,793	58,477
Proved Developed Non-Producing[2][6]										
Australia	-	-	-	-	-	-	-	-	-	-
Canada	329	289	-	-	8,635	7,944	96	65	1,864	1,678
France	739	638	-	-	-	-	-	-	739	638
Ireland	-	-	-	-	-	-	-	-	-	-
Netherlands	-	-	-	-	15,387	15,387	22	22	2,587	2,587
Total Proved Developed Non-Producing	1,068	927	-	-	24,022	23,331	118	87	5,189	4,902
Proved Undeveloped[2][7]										
Australia	-	-	-	-	-	-	-	-	-	-
Canada	5,292	4,349	-	-	28,594	26,861	751	580	10,809	9,406
France	1,296	1,257	-	-	-	-	-	-	1,296	1,257
Ireland	-	-	-	-	91,997	91,997	-	-	15,333	15,333
Netherlands	-	-	-	-	-	-	-	-	-	-
Total Proved Undeveloped	6,588	5,606	-	-	120,591	118,859	751	580	27,438	25,996
Proved[2]										
Australia	13,198	13,198	-	-	-	-	-	-	13,198	13,198
Canada	11,855	9,925	21	20	114,766	103,628	3,614	2,400	34,618	29,616
France	26,310	24,267	-	-	2,481	2,481	-	-	26,724	24,680
Ireland	-	-	-	-	91,997	91,997	-	-	15,333	15,333
Netherlands	-	-	-	-	38,954	38,954	56	56	6,548	6,548
Total Proved	51,364	47,390	21	20	248,198	237,061	3,669	2,456	96,421	89,375
Probable[3]										
Australia	6,500	6,500	-	-	-	-	-	-	6,500	6,500
Canada	8,701	7,025	2	2	49,826	44,787	1,685	1,162	18,691	15,654
France	12,992	12,497	-	-	74	74	-	-	13,004	12,509
Ireland	-	-	-	-	12,965	12,965	-	-	2,161	2,161
Netherlands	-	-	-	-	33,025	33,025	48	48	5,552	5,552
Total Probable	28,192	26,022	2	2	95,890	90,851	1,732	1,210	45,908	42,376
Proved Plus Probable[2][3]										
Australia	19,698	19,698	-	-	-	-	-	-	19,698	19,698
Canada	20,556	16,950	23	21	164,592	148,416	5,298	3,562	53,309	45,270
France	39,302	36,763	-	-	2,555	2,555	-	-	39,728	37,189
Ireland	-	-	-	-	104,962	104,962	-	-	17,494	17,494
Netherlands	-	-	-	-	71,979	71,979	104	104	12,100	12,100
Total Proved Plus Probable	79,556	73,411	23	21	344,088	327,912	5,402	3,666	142,329	131,751

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

	Before Deducting Future Income Taxes Discounted At					After Deducting Future Income Taxes Discounted At				
(M$)	**0%**	**5%**	**10%**	**15%**	**20%**	**0%**	**5%**	**10%**	**15%**	**20%**
Proved Developed Producing[2][5]										
Australia	685,933	586,967	513,211	456,874	412,822	335,159	285,631	248,771	220,685	198,789
Canada	566,006	446,129	369,929	317,506	279,326	566,006	446,129	369,929	317,506	279,326
France	1,352,555	977,376	770,793	641,512	553,251	967,569	711,156	568,216	477,740	415,338
Ireland	-	-	-	-	-	-	-	-	-	-
Netherlands	137,647	127,758	119,457	112,390	106,299	105,017	96,365	89,185	83,140	77,984
Total Proved Developed Producing	2,742,142	2,138,230	1,773,389	1,528,282	1,351,698	1,973,752	1,539,282	1,276,101	1,099,070	971,436
Proved Developed Non-Producing[2][6]										
Australia	-	-	-	-	-	-	-	-	-	-
Canada	35,261	25,521	19,929	16,168	13,435	35,261	25,521	19,929	16,168	13,435
France	34,830	23,047	16,845	13,119	10,649	22,847	14,694	10,376	7,780	6,065
Ireland	-	-	-	-	-	-	-	-	-	-
Netherlands	129,476	103,363	85,412	72,506	62,875	93,211	71,570	57,189	47,180	39,932
Total Proved Developed Non-Producing	199,567	151,931	122,186	101,794	86,958	151,319	111,784	87,494	71,128	59,431
Proved Undeveloped[2][7]										
Australia	-	-	-	-	-	-	-	-	-	-
Canada	209,918	117,108	61,410	26,306	3,294	209,918	117,108	61,410	26,306	3,294
France	82,770	51,455	34,090	23,369	16,307	54,293	32,052	19,885	12,469	7,662
Ireland	472,988	329,733	226,540	151,049	95,045	472,988	329,733	226,540	151,049	95,045
Netherlands	-	-	-	-	-	-	-	-	-	-
Total Proved Undeveloped	765,676	498,296	322,040	200,724	114,646	737,199	478,893	307,835	189,824	106,001
Proved[2]										
Australia	685,933	586,967	513,211	456,874	412,822	335,159	285,631	248,771	220,685	198,789
Canada	811,185	588,758	451,267	359,980	296,055	811,185	588,758	451,267	359,980	296,055
France	1,470,155	1,051,878	821,728	678,000	580,206	1,044,710	757,902	598,477	497,989	429,064
Ireland	472,988	329,733	226,540	151,049	95,045	472,988	329,733	226,540	151,049	95,045
Netherlands	267,123	231,121	204,869	184,896	169,174	198,228	167,935	146,374	130,320	117,916
Total Proved	3,707,385	2,788,456	2,217,615	1,830,800	1,553,302	2,862,270	2,129,959	1,671,430	1,360,023	1,136,869
Probable[3]										
Australia	410,245	292,546	222,182	177,623	147,792	178,134	125,858	94,543	74,775	61,619
Canada	569,306	320,842	195,801	125,688	83,172	451,975	259,770	161,871	105,835	71,055
France	931,516	507,217	322,013	223,921	164,930	611,049	325,719	200,899	134,977	95,607
Ireland	131,617	95,304	70,749	53,666	41,481	131,617	95,304	70,749	53,666	41,481
Netherlands	282,993	197,317	148,138	117,298	96,538	167,590	109,627	78,491	60,053	48,209
Total Probable	2,325,676	1,413,226	958,883	698,196	533,914	1,540,365	916,278	606,552	429,307	317,972
Proved Plus Probable[2][3]										
Australia	1,096,178	879,513	735,393	634,497	560,614	513,293	411,489	343,314	295,460	260,407
Canada	1,380,491	909,599	647,069	485,668	379,227	1,263,160	848,528	613,138	465,815	367,110
France	2,401,671	1,559,094	1,143,741	901,920	745,137	1,655,759	1,083,620	799,376	632,966	524,671
Ireland	604,605	425,037	297,289	204,716	136,526	604,605	425,037	297,289	204,716	136,526
Netherlands	550,116	428,438	353,007	302,194	265,712	365,818	277,562	224,865	190,373	166,125
Total Proved Plus Probable	6,033,061	4,201,682	3,176,498	2,528,996	2,087,216	4,402,635	3,046,237	2,277,982	1,789,330	1,454,840

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

(M$)	**Revenue**	**Royalties**	**Operating Costs**	**Capital Development Costs**	**Abandon-ment Costs**	**Future Net Revenue Before Income Taxes**	**Future Income Taxes**	**Future Net Revenue After Income Taxes**
Proved[2]								
Australia	1,281,191	-	528,738	28,994	37,527	685,933	350,774	335,159
Canada	2,249,521	343,077	761,345	301,722	32,191	811,185	-	811,185
France	2,582,910	198,067	758,803	79,436	76,450	1,470,155	425,445	1,044,710
Ireland	944,053	-	189,347	260,950	20,767	472,988	-	472,988
Netherlands	396,148	-	105,701	10,996	12,328	267,123	68,895	198,228
Total Proved	7,453,824	541,144	2,343,934	682,098	179,263	3,707,385	845,114	2,862,270
Proved Plus Probable[2][3]								
Australia	1,994,404	-	818,318	38,494	41,415	1,096,178	582,885	513,293
Canada	3,731,380	599,273	1,158,558	551,660	41,398	1,380,491	117,331	1,263,160
France	3,976,857	249,037	1,036,717	195,575	93,858	2,401,671	745,912	1,655,759
Ireland	1,081,464	-	195,130	260,962	20,767	604,605	-	604,605
Netherlands	759,216	-	171,126	23,836	14,138	550,116	184,298	365,818
Total Proved Plus Probable	11,543,321	848,309	3,379,848	1,070,527	211,576	6,033,061	1,630,426	4,402,635

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

	Net Present Value of Future Net Revenue Before Income Taxes (Discounted at 10% Per Year)	Unit Value
Proved[2]	**(M$)**	**($/boe)**
Light and medium oil	1,517,677	30.51
Heavy oil	669	24.58
Associated gas and non-associated gas	668,738	19.23
Non-conventional oil and gas activities	30,531	6.33
Total Proved	2,217,615	24.81
Proved Plus Probable[2][3]		
Light and medium oil	2,193,123	28.44
Heavy oil	735	24.68
Associated gas and non-associated gas	940,828	19.63
Non-conventional oil and gas activities	41,812	6.26
Total Proved Plus Probable	3,176,498	24.11

Forecast Prices used in Estimates[8]

		Light and Medium Crude Oil		Crude Oil	Natural Gas	Natural Gas Netherlands	Natural Gas Liquids	Inflation Rate	Exchange Rate
Year	WTI Cushing Oklahoma ($US/Bbl)	Edmonton Par Price 40º API ($Cdn/Bbl)	Cromer Medium 29.3º API ($Cdn/Bbl)	Brent Blend FOB North Sea ($US/Bbl)	AECO Gas Price ($Cdn/MMBtu)	TTF Gas Price ($Cdn/Mcf)	FOB Field Gate ($Cdn/Bbl)	Percent Per Year	($US/$Cdn)
2010	79.42	78.02	73.81	80.06	4.17	7.05	65.50	1.8	0.971
Forecast									
2011	88.00	86.22	82.78	88.50	4.16	10.21	70.71	2.0	0.980
2012	89.00	89.29	83.04	88.25	4.74	9.73	72.32	2.0	0.980
2013	90.00	90.92	83.64	88.50	5.31	9.48	73.34	2.0	0.980
2014	92.00	92.96	84.59	90.50	5.77	9.70	74.99	2.0	0.980
2015	95.17	96.19	87.54	93.67	6.22	10.04	77.60	2.0	0.980
Thereafter	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	0.980

*** All prices above from GLJ except Netherlands 2010 which is Vermilion's realized price.**

Reconciliations of Changes in Reserves

The following tables set forth a reconciliation of the changes in Vermilion's company gross light and medium crude oil, associated and non-associated gas (combined) reserves as at December 31, 2010 against such reserves as at December 31, 2009 based on the forecast price and cost assumptions set forth in note 8 under the heading "Statement of Reserves Data and Other Oil and Gas Information - Future Net Revenue by Production Based on Forecast Prices and Costs".

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

AUSTRALIA	Total Oil			Light and Medium Oil			Heavy Oil			Natural Gas Liquids		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)
At December 31, 2009	13,083	6,679	19,762	13,083	6,679	19,762	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	1,500	1,120	2,620	1,500	1,120	2,620	-	-	-	-	-	-
Technical Revisions	1,300	(1,299)	1	1,300	(1,299)	1	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(2,684)	-	(2,684)	(2,684)	-	(2,684)	-	-	-	-	-	-
At December 31, 2010	13,198	6,500	19,698	13,198	6,500	19,698	-	-	-	-	-	-

	Total Gas			Conventional Natural Gas			Coal Bed Methane			BOE		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved Plus Probable (Mboe)
At December 31, 2009	-	-	-	-	-	-	-	-	-	13,083	6,679	19,762
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	1,500	1,120	2,620
Technical Revisions	-	-	-	-	-	-	-	-	-	1,299	(1,299)	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	(2,684)	-	(2,684)
At December 31, 2010	-	-	-	-	-	-	-	-	-	13,198	6,500	19,698

CANADA	Total Oil			Light and Medium Oil			Heavy Oil			Natural Gas Liquids		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)
At December 31, 2009	6,869	2,969	9,838	6,839	2,964	9,803	30	5	35	3,267	1,566	4,833
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	6,113	5,923	12,036	6,113	5,923	12,036	-	-	-	555	321	876
Technical Revisions	(92)	(189)	(281)	(89)	(186)	(275)	(3)	(3)	(6)	313	(203)	110
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(1,014)	-	(1,014)	(1,008)	-	(1,008)	(6)	-	(6)	(521)	-	(521)
At December 31, 2010	11,876	8,703	20,579	11,855	8,701	20,556	21	2	23	3,614	1,684	5,298

	Total Gas			Conventional Natural Gas			Coal Bed Methane			BOE		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved Plus Probable (Mboe)
At December 31, 2009	120,465	56,514	176,979	80,552	36,665	117,217	39,913	19,849	59,762	30,214	13,954	44,168
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	13,702	7,913	21,615	13,702	7,913	21,615	-	-	-	8,951	7,563	16,514
Technical Revisions	508	(9,266)	(8,758)	3,485	(6,441)	(2,956)	(2,977)	(2,825)	(5,803)	306	(1,937)	(1,631)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	(3,880)	(5,335)	(9,215)	(90)	(420)	(511)	(3,790)	(4,915)	(8,704)	(647)	(889)	(1,536)
Production	(16,029)	-	(16,029)	(13,699)	-	(13,699)	(2,330)	-	(2,330)	(4,206)	-	(4,206)
At December 31, 2010	114,766	49,826	164,592	83,950	37,717	121,667	30,816	12,109	42,925	34,618	18,691	53,309

FRANCE			Total Oil			Light and Medium Oil			Heavy Oil			Natural Gas Liquids		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)
At December 31, 2009	28,447	14,563	43,010	28,447	14,563	43,010	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	470	-	470	470	-	470	-	-	-	-	-	-
Technical Revisions	440	(1,571)	(1,131)	440	(1,571)	(1,131)	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(3,047)	-	(3,047)	(3,047)	-	(3,047)	-	-	-	-	-	-
At December 31, 2010	26,310	12,992	39,302	26,310	12,992	39,302	-	-	-	-	-	-

			Total Gas			Conventional Natural Gas			Coal Bed Methane			BOE		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved Plus Probable (Mboe)
At December 31, 2009	1,811	666	2,477	1,811	666	2,477	-	-	-	28,749	14,674	43,423
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	470	-	470
Technical Revisions	1,007	(592)	415	1,007	(592)	415	-	-	-	608	(1,670)	(1,062)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(337)	-	(337)	(337)	-	(337)	-	-	-	(3,103)	-	(3,103)
At December 31, 2010	2,481	74	2,555	2,481	74	2,555	-	-	-	26,724	13,004	39,728

IRELAND			Total Oil			Light and Medium Oil			Heavy Oil			Natural Gas Liquids		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)
At December 31, 2009	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	-	-	-	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	-	-	-
At December 31, 2010	-	-	-	-	-	-	-	-	-	-	-	-

			Total Gas			Conventional Natural Gas			Coal Bed Methane			BOE		
Proved [2] Probable [3] P+P [2][3] Factors	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved Plus Probable (Mboe)
At December 31, 2009	91,991	12,968	104,959	91,991	12,968	104,959	-	-	-	15,332	2,161	17,493
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	6	(3)	3	6	(3)	3	-	-	-	1	-	1
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	-	-	-
At December 31, 2010	91,997	12,965	104,962	91,997	12,965	104,962	-	-	-	15,333	2,161	17,494

NETHERLANDS			Total Oil			Light and Medium Oil			Heavy Oil			Natural Gas Liquids	
Proved [2] Probable [3] P+P [2][3] Factors	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)
At December 31, 2009	-	-	-	-	-	-	-	-	-	50	39	89
Discoveries	-	-	-	-	-	-	-	-	-	13	(11)	2
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	-	-	-	-	-	-	-	-	-	6	20	26
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	(13)	-	(13)
At December 31, 2010	-	-	-	-	-	-	-	-	-	56	48	104

			Total Gas			Conventional Natural Gas			Coal Bed Methane			BOE
Proved [2] Probable [3] P+P [2][3] Factors	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved Plus Probable (Mboe)
At December 31, 2009	44,196	34,320	78,516	44,196	34,320	78,516	-	-	-	7,416	5,759	13,175
Discoveries	404	1,112	1,515	404	1,112	1,515	-	-	-	80	175	255
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	4,687	(2,407)	2,280	4,687	(2,407)	2,280	-	-	-	787	(382)	405
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(10,332)	-	(10,332)	(10,332)	-	(10,332)	-	-	-	(1,735)	-	(1,735)
At December 31, 2010	38,954	33,025	71,979	38,954	33,025	71,979	-	-	-	6,548	5,552	12,100

TOTAL COMPANY			Total Oil			Light and Medium Oil			Heavy Oil			Natural Gas Liquids	
Proved [2] Probable [3] P+P [2][3] Factors	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)
At December 31, 2009	48,399	24,211	72,610	48,369	24,206	72,575	30	5	35	3,317	1,605	4,922
Discoveries	-	-	-	-	-	-	-	-	-	13	(11)	2
Extensions & Improved Recovery	8,083	7,043	15,126	8,083	7,043	15,126	-	-	-	555	321	876
Technical Revisions	1,647	(3,059)	(1,412)	1,650	(3,056)	(1,406)	(3)	(3)	(6)	318	(183)	136
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(6,745)	-	(6,745)	(6,739)	-	(6,739)	(6)	-	(6)	(534)	-	(534)
At December 31, 2010	51,384	28,195	79,579	51,363	28,193	79,556	21	2	23	3,670	1,732	5,402

			Total Gas			Conventional Natural Gas			Coal Bed Methane			BOE
Proved [2] Probable [3] P+P [2][3] Factors	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved Plus Probable (Mboe)
At December 31, 2009	258,463	104,468	362,931	218,550	84,619	303,169	39,913	19,849	59,762	94,794	43,227	138,021
Discoveries	404	1,112	1,515	404	1,112	1,515	-	-	-	80	175	255
Extensions & Improved Recovery	13,702	7,913	21,615	13,702	7,913	21,615	-	-	-	10,921	8,683	19,604
Technical Revisions	6,207	(12,268)	(6,060)	9,185	(9,442)	(258)	(2,977)	(2,825)	(5,803)	3,001	(5,288)	(2,287)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	(3,880)	(5,335)	(9,215)	(90)	(420)	(511)	(3,790)	(4,915)	(8,704)	(647)	(889)	(1,536)
Production	(26,698)	-	(26,698)	(24,368)	-	(24,368)	(2,330)	-	(2,330)	(11,728)	-	(11,728)
At December 31, 2010	248,198	95,890	344,088	217,382	83,781	301,163	30,816	12,109	42,925	96,421	45,908	142,329

Notes:

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

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

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

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

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

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

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

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

Undeveloped Reserves

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

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

Timing of Initial Undeveloped Reserves Assignment

Undeveloped Reserves Attributed in Current Year

	Light & Medium Oil (Mbbl)		Natural Gas (MMcf)		Coalbed Methane Gas (MMcf)		Natural Gas Liquids (Mbbl)		Total Oil Equivalent (Mboe)	
	First Attributed (1)	Booked	First Attributed (1)	Booked	First Attributed (1)	Booked	First Attributed (1)	Booked	First Attributed (1)	Booked
Proved										
Prior to 2008	1,930	2,734	425	928	3,386	23,930	22	34	2,587	6,911
2008	98	2,678	2,214	2,289	3,325	21,009	121	128	1,142	6,689
2009	1,090	2,034	99,026	100,928	1,152	20,607	362	441	18,148	22,731
2010	4,627	6,588	6,454	107,633	4,943	12,958	268	751	6,795	27,438
Probable										
Prior to 2008	3,643	8,063	11,133	20,676	4,344	16,928	365	808	6,588	15,138
2008	236	8,120	10,254	25,466	2,718	16,961	529	964	2,927	16,155
2009	2,184	8,047	19,348	34,566	1,598	14,374	324	754	5,999	16,958
2010	6,306	12,417	8,106	38,296	2,435	8,066	342	931	8,405	21,075

Note:

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

Future Development Costs

The table below sets out the future development costs deducted in estimation of future net revenue attributable to proved reserves and proved plus probable reserves (using forecast prices and costs and calculated without discount).

(M$)	Total Proved Estimated Using Forecast Prices and Costs	Total Proved Plus Probable Estimated Using Forecast Prices and Costs
Australia		
2011	3,900	13,400
2012	3,978	3,978
2013	4,058	4,058
2014	4,139	4,139
2015	4,221	4,221
Remainder	8,698	8,698
Total for all years undiscounted	28,994	38,494
Canada		
2011	96,652	136,536
2012	100,509	150,316
2013	39,691	126,434
2014	48,464	120,619
2015	1,876	2,312
Remainder	14,530	15,443
Total for all years undiscounted	301,722	551,660
France		
2011	12,017	30,961
2012	19,810	44,980
2013	18,325	61,833
2014	4,036	31,426
2015	4,116	4,184
Remainder	21,133	22,192
Total for all years undiscounted	79,436	195,575
Ireland		
2011	107,615	107,615
2012	87,615	87,615
2013	54,672	54,672
2014	1,290	1,290
2015	1,315	1,315
Remainder	8,444	8,456
Total for all years undiscounted	260,950	260,962
Netherlands		
2011	5,219	5,219
2012	1,849	4,073
2013	755	11,371
2014	770	770
2015	785	785
Remainder	1,618	1,618
Total for all years undiscounted	10,996	23,836
Total Company		
2011	225,403	293,731
2012	213,762	290,962
2013	117,499	258,367
2014	58,698	158,242
2015	12,314	12,817
Remainder	54,422	56,407
Total for all years undiscounted	682,098	1,070,527

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

Oil and Gas Properties and Wells

The following table sets forth the number of wells in which Vermilion held a working interest as at December 31, 2010:

	Oil		Natural Gas	
	Gross[1] Wells	Net[2] Wells	Gross[1] Wells	Net[2] Wells
Australia				
Producing	18	18	-	-
Non-producing	-	-	-	-
Canada				
Producing	476	178	576	393
Non-producing	180	57	99	67
France				
Producing	217	190	-	-
Non-producing	163	143	-	-
Ireland				
Producing	-	-	-	-
Non-producing	-	-	7	1
Netherlands				
Producing	-	-	47	37
Non-producing	-	-	26	20
Total Producing	711	386	623	430
Total Non-producing	343	200	132	88

Notes:

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

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

(3) Well counts are based on wellbores.

Costs Incurred

The following table summarizes the capital expenditures made by Vermilion on oil and natural gas properties for the year ended December 31, 2010:

(M$)	Property Acquisition Costs		Exploration Costs	Development Costs	Total Costs
	Proved Properties	Unproved Properties			
Australia	-	-	499	50,958	51,457
Canada	448	97,215	5,126	140,111	242,900
France	6,207	-	411	48,347	54,965
Ireland	-	-	187	78,311	78,498
Netherlands	-	-	377	10,640	11,017
Total	6,655	97,215	6,600	328,367	438,837

Exploration and Development Activities

The following table sets forth the number of development and exploration wells which Vermilion completed during its 2010 financial year:

	Exploration Wells		Development Wells	
	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]
Australia				
Oil	-	-	3.0	3.0
Gas	-	-	-	-
Standing	-	-	-	-
Dry Holes	-	-	-	-
Total Completed	-	-	3.0	3.0
Canada				
Oil	-	-	28.0	18.9
Gas	-	-	5.0	3.4
Standing	-	-	22.0	17.7
Dry Holes	-	-	-	-
Total Completed	-	-	55.0	40.0
France				
Oil	-	-	-	-
Gas	-	-	-	-
Service	-	-	1.0	1.0
Standing	-	-	-	-
Dry Holes	-	-	-	-
Total Completed	-	-	1.0	1.0
Ireland				
Oil	-	-	-	-
Gas	-	-	-	-
Standing	-	-	-	-
Dry Holes	-	-	-	-
Total Completed	-	-	-	-
Netherlands				
Oil	-	-	-	-
Gas	-	-	-	-
Standing	1.0	0.4	-	-
Dry Holes	-	-	-	-
Total Completed	1.0	0.4		
Total Company				
Oil	-	-	31.0	21.9
Gas	-	-	5.0	3.4
Service	-	-	1.0	1.0
Standing	1.0	0.4	22.0	17.7
Dry Holes	-	-	-	-
Total Completed	1.0	0.4	59.0	44.0

Notes:

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

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

Vermilion has currently budgeted $461 million for its 2011 capital program in Australia, Canada, France, Ireland and the Netherlands. The funds will be used to drill wells to develop reserves in its Canadian key area, the Cardium play in Drayton Valley, Central Alberta, and in Australia, France, Ireland and the Netherlands. A portion of the capital will be allocated to workovers, production optimization, and maintenance capital in each country.

Properties with No Attributed Reserves

The following table sets out Vermilion's undeveloped land as at December 31, 2010:

	Undeveloped Land	
Country	**Gross Acres(1)**	**Net Acres(2)**
Australia	-	-
Canada	258,277	169,905
France	900,864	879,491
Ireland	57,531	10,643
Netherlands	430,784	267,695
Total	1,647,456	1,327,734

Notes:

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

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

Vermilion expects its rights to explore, develop and exploit approximately 29,307 net acres in Canada and 108,599 net acres in France to expire within one year. In the Netherlands, Ireland and Australia, no such rights expire within one year.

Abandonment and Reclamation Costs

Vermilion has estimated its abandonment costs by determining amounts for facility decommissioning and reclamation costs (including salvage) by area in Australia, Canada, France, Ireland and the Netherlands. As well, Vermilion has determined abandonment costs (including salvage) and reclamation costs per well, by area and applied this amount to its net wells in each of the countries. The number of net wells to be abandoned is 1,226 in Canada, 389 in France, 59 in the Netherlands, 20 in Australia and one in Ireland.

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

Country	**Undiscounted (M$)**	**Discounted 10% (M$)**
Australia	37,527	13,354
Canada	32,191	10,551
France	76,450	20,677
Ireland	20,767	7,634
Netherlands	12,328	8,055
Total	179,263	60,271

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

Country	**Facilities Undiscounted (M$)**	**Discounted 10% (M$)**
Australia	210,687	18,006
Canada	154,544	56,082
France	223,196	15,847
Ireland	10,295	3,253
Netherlands	161,173	66,651
Total	759,895	159,839

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

Country	Undiscounted (M$)	Discounted 10% (M$)
Australia	4,485	3,576
Canada	2,714	2,396
France	3,867	3,205
Ireland	-	-
Netherlands	3,687	3,062
Total	14,753	12,239

Tax Information

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

In France, the Company is currently subject to an approximate 35% corporate tax rate after eligible deductions. In the Netherlands, the Company is currently subject to an approximate 45% corporate tax rate after eligible deductions. In Australia, the Company is currently subject to an approximate 30% corporate tax rate after eligible deductions in addition to Petroleum Resource Rent Tax which is approximately 40%. Ireland is subject to tax at 25% after eligible deductions.

Production Estimates

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

	Light and Medium Oil (Bbl/d)	Heavy Oil (Bbl/d)	Natural Gas (Mcf/d)	Natural Gas Liquids (Bbl/d)	BOE (Bbl/d)
Australia					
Proved	6,765	-	-	-	6,765
Proved Plus Probable	7,815	-	-	-	7,815
Canada					
Proved	3,540	12	39,062	1,327	11,389
Proved Plus Probable	4,199	12	42,255	1,469	12,723
France					
Proved	8,001	-	2,464	-	8,411
Proved Plus Probable	8,468	-	2,494	-	8,883
Ireland					
Proved	-	-	-	-	-
Proved Plus Probable	-	-	-	-	-
Netherlands					
Proved	-	-	26,944	38	4,528
Proved Plus Probable	-	-	30,555	42	5,135
Total Proved	18,305	12	68,470	1,365	31,093
Total Proved Plus Probable	20,482	12	75,304	1,512	34,556

Production History

The following table sets forth certain information in respect of production, product prices received, royalties, production costs and netbacks received by Vermilion for each quarter of its most recently completed financial year. Vermilion had no production from its Ireland assets in 2010. Light and medium oil in the following table includes any amounts generated by the sale of heavy oil and is deemed to be immaterial by Vermilion.

	Three Months Ended March 31, 2010	Three Months Ended June 30, 2010	Three Months Ended September 30, 2010	Three Months Ended December 31, 2010
Australia				
Average Daily Production				
Light and Medium Oil (Bbl/d)	7,094	6,522	6,225	9,561
Natural Gas (MMcf/d)	-	-	-	-
Natural Gas Liquids (Bbl/d)	-	-	-	-
Average Net Prices Received				
Light and Medium Oil ($/Bbl)	83.14	77.76	77.98	86.23
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/Bbl)	-	-	-	-
Royalties				
Light and Medium Oil ($/Bbl)	23.42	6.10	4.85	20.68
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/Bbl)	-	-	-	-
Transportation				
Light and Medium Oil ($/Bbl)	-	-	-	-
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/Bbl)	-	-	-	-
Production Costs				
Light and Medium Oil ($/Bbl)	17.84	16.36	17.38	12.48
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/Bbl)	-	-	-	-
Netback Received				
Light and Medium Oil ($/Bbl)	41.88	55.30	55.75	53.07
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/Bbl)	-	-	-	-
Canada				
Average Daily Production				
Light and Medium Oil (Bbl/d)	2,012	2,718	2,890	3,473
Natural Gas (MMcf/d)	46.99	44.24	42.17	42.33
Natural Gas Liquids (Bbl/d)	1,670	1,342	1,314	1,386
Average Net Prices Received				
Light and Medium Oil ($/Bbl)	81.38	75.90	74.19	81.20
Natural Gas ($/Mcf)	5.46	4.35	4.26	4.00
Natural Gas Liquids ($/Bbl)	67.17	63.26	61.52	63.29
Royalties				
Light and Medium Oil ($/Bbl)	11.83	5.06	5.43	4.88
Natural Gas ($/Mcf)	0.73	0.03	0.27	0.02
Natural Gas Liquids ($/Bbl)	14.31	3.19	3.71	3.80
Transportation				
Light and Medium Oil ($/Bbl)	2.00	1.76	1.68	1.47
Natural Gas ($/Mcf)	0.21	0.22	0.22	0.22
Natural Gas Liquids ($/Bbl)	1.79	2.72	1.43	2.04
Production Costs				
Light and Medium Oil ($/Bbl)	15.57	10.45	11.40	10.30
Natural Gas ($/Mcf)	1.49	1.44	1.75	1.89
Natural Gas Liquids ($/Bbl)	4.64	5.24	6.20	6.39
Netback Received				
Light and Medium Oil ($/Bbl)	51.98	58.63	55.68	64.55
Natural Gas ($/Mcf)	3.03	2.66	2.02	1.87
Natural Gas Liquids ($/Bbl)	46.43	52.11	50.18	51.06

France				
Average Daily Production				
Light and Medium Oil (Bbl/d)	7,900	8,397	8,542	8,539
Natural Gas (MMcf/d)	0.94	0.45	1.19	1.10
Natural Gas Liquids (Bbl/d)	-	-	-	-
Average Net Prices Received				
Light and Medium Oil ($/Bbl)	78.06	79.93	78.87	85.53
Natural Gas ($/Mcf)	9.02	8.94	9.50	10.93
Natural Gas Liquids ($/Bbl)	-	-	-	-
Royalties				
Light and Medium Oil ($/Bbl)	5.33	5.31	4.90	5.40
Natural Gas ($/Mcf)	(0.09)	0.27	0.25	0.27
Natural Gas Liquids ($/Bbl)	-	-	-	-
Transportation				
Light and Medium Oil ($/Bbl)	3.86	3.71	3.28	3.15
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/Bbl)	-	-	-	-
Production Costs				
Light and Medium Oil ($/Bbl)	14.65	13.14	13.71	13.23
Natural Gas ($/Mcf)	5.19	6.94	3.55	7.56
Natural Gas Liquids ($/Bbl)	-	-	-	-
Netback Received				
Light and Medium Oil ($/Bbl)	54.22	57.77	56.98	63.75
Natural Gas ($/Mcf)	3.92	1.73	5.70	3.10
Natural Gas Liquids ($/Bbl)	-	-	-	-
Netherlands				
Average Daily Production				
Light and Medium Oil (Bbl/d)	-	-	-	-
Natural Gas (MMcf/d)	20.97	31.35	30.32	30.47
Natural Gas Liquids (Bbl/d)	25	44	46	26
Average Net Prices Received				
Light and Medium Oil ($/Bbl)	-	-	-	-
Natural Gas ($/Mcf)	6.49	6.18	7.39	7.97
Natural Gas Liquids ($/Bbl)	22.70	76.05	58.65	131.14
Royalties				
Light and Medium Oil ($/Bbl)	-	-	-	-
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/Bbl)	-	-	-	-
Production Costs				
Light and Medium Oil ($/Bbl)	-	-	-	-
Natural Gas ($/Mcf)	2.26	1.26	1.56	2.14
Natural Gas Liquids ($/Bbl)	-	-	-	-
Netback Received				
Light and Medium Oil ($/Bbl)	-	-	-	-
Natural Gas ($/Mcf)	4.23	4.92	5.83	5.83
Natural Gas Liquids ($/Bbl)	22.70	76.05	58.65	131.14
Total				
Average Daily Production				
Light and Medium Oil (Bbl/d)	17,006	17,637	17,658	21,573
Natural Gas (MMcf/d)	68.90	76.04	73.68	73.90
Natural Gas Liquids (Bbl/d)	1,695	1,386	1,360	1,412
Average Net Prices Received				
Light and Medium Oil ($/Bbl)	80.57	78.51	77.79	85.14
Natural Gas ($/Mcf)	5.82	5.13	5.64	5.74
Natural Gas Liquids ($/Bbl)	66.51	63.67	61.42	64.55
Royalties				
Light and Medium Oil ($/Bbl)	14.11	6.67	5.81	13.53
Natural Gas ($/Mcf)	0.50	0.02	0.16	0.01
Natural Gas Liquids ($/Bbl)	22.37	18.35	19.49	19.97
Transportation Costs				
Light and Medium Oil ($/Bbl)	2.03	2.04	1.86	1.48
Natural Gas ($/Mcf)	0.15	0.13	0.13	0.13
Natural Gas Liquids ($/Bbl)	1.77	2.63	1.38	2.00
Production Costs				
Light and Medium Oil ($/Bbl)	16.08	13.91	14.62	12.43
Natural Gas ($/Mcf)	1.78	1.40	1.70	2.08
Natural Gas Liquids ($/Bbl)	4.57	5.07	5.99	6.27
Netback Received				
Light and Medium Oil ($/Bbl)	48.34	55.89	55.50	57.70
Natural Gas ($/Mcf)	3.39	3.58	3.65	3.52
Natural Gas Liquids ($/Bbl)	37.80	37.62	34.56	36.31

Marketing

The nature of Vermilion's operations results in exposure to fluctuations in commodity prices, interest rates and foreign currency exchange rates. Vermilion monitors and, when appropriate, uses derivative financial instruments to manage its exposure to these 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 December 31, 2010.

Risk Management: Oil	**Funded Cost**	**Bbl/d**	**US $/Bbl**
Collar - WTI			
January 2011 to June 2011	US $1.00/bbl	2,400	$ 80.00 - $107.60
January 2011 to June 2011	US $1.00/bbl	2,400	$ 75.00 - $ 97.85
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
Collar – BRENT			
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
Call Spread – BRENT			
January 2011 to December 2011	US $6.08/bbl [1]	960	$ 65.00 - $ 85.00
January 2011 to December 2011	US $5.15/bbl [1]	600	$ 65.00 - $ 85.00
Risk Management: Natural Gas	**Funded Cost**	**GJ/d**	**$/Bbl**
SWAP – AECO			
January 2011 to October 2011	$0.00/GJ	700	$ 5.13
Risk Management: Foreign Exchange		**Notional Principal ($US) Per Month**	**Fixed Rate ($CDN / $US)**
US Dollar Forward Sale			
January 2011 to December 2011		$750,000	$1.07
January 2011 to December 2011		$750,000	$1.07

[1] The funded amounts for these instruments were paid in a prior period.

ADDITIONAL INFORMATION RESPECTING VERMILION ENERGY INC.

Management

Vermilion has a board of directors currently consisting of seven individuals. The directors are elected by the Company at the direction of Shareholders by ordinary resolution, and hold office until the Meeting. As at March 7, 2011, the directors and officers of Vermilion, as a group, beneficially owned, or controlled or directed, directly or indirectly, 7,333,061 common shares representing approximately 8.2% of the issued and outstanding common shares.

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

Directors Name and Municipality of Residence	**Office Held**	**Year First Elected or Appointed as Director**	**Principal Occupation During the Past Five Years**
Lorenzo Donadeo Calgary, Alberta, Canada	President and Chief Executive Officer and Director	1994	Since 2003, President and Chief Executive Officer of Vermilion
W. Kenneth Davidson (2)(3) Oakville, Ontario, Canada	Director	2005	Since 2000, Director of Millar Western Forest Products Ltd., a private forest products company From 2009 until February 2011, Director of Realex Properties Corp., a public real estate company
Claudio A. Ghersinich (2)(4)(5) Calgary, Alberta, Canada	Director	1994	Since 2005, President of Carrera Investments Corp., a private investment company
Joseph F. Killi (2)(3) Calgary, Alberta, Canada	Director	1999	From January 2011, Executive Chairman of Parkbridge Lifestyle Communities Inc., a private real estate company From 2005 until January 2011, Executive Chairman of Parkbridge Lifestyle Communities Inc., a public real estate company From 2005 until February 2011, Vice Chairman of Realex Properties Corp., a public real estate company Since 1993, President of Rosebridge Capital Corp. Inc., a private real estate investment company
Larry J. Macdonald (1)(2)(3)(4)(5) Okotoks, Alberta, Canada	Director and Chairman of the Board	2002	Since 2003, Chairman & Chief Executive Officer and a director of Point Energy Ltd., a private oil and gas company Since 2003, Managing Director of Northpoint Energy Ltd., a private oil and gas company
William F. Madison (2)(4)(5) Sugar Land, Texas, USA	Director	2004	From 1999 to 2006, a director of Montana Tech Foundation, serving as Chairman during 2004 and 2005 Since 2007, Director of Canadian Oil Recovery and Remediation Enterprise, Inc., a public oil recovery and remediation company
Timothy R. Marchant (3)(4)(5) Calgary, Alberta, Canada	Director	2010	2009 to present, adjunct professor, Haskayne School of Business 2007 to 2009, Vice President, Middle East Business Development for BP International 2004 to 2007, President, BP Kuwait

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

Officers Name and Municipality of Residence	Office Held	Principal Occupation During the Past Five Years
John D. Donovan Calgary, Alberta, Canada	Executive Vice President Business Development	Since 2005, Executive Vice President, Business Development of Vermilion
Curtis W. Hicks Calgary, Alberta, Canada	Executive Vice President and Chief Financial Officer	Since 2004, Executive Vice President and Chief Financial Officer of Vermilion
G.R. (Bob) Mac Dougall Calgary, Alberta, Canada	Executive Vice President and Chief Operating Officer	Since 2006, Executive Vice President and Chief Operating Officer of Vermilion 2004 to 2006, Chief Operating Officer of Vermilion
Paul Beique Calgary, Alberta, Canada	Vice President Capital Markets	Since 2008, Vice President Capital Markets of Vermilion 2003 to 2008, Director Investor Relations of Vermilion
Mona Jasinski Calgary, Alberta, Canada	Vice President People	Since 2009, Vice President People of Vermilion 2004 to 2009, HR Manager, Shell Onshore Production, North America
Raj C. Patel Calgary, Alberta, Canada	Vice President Marketing	Since 2001, Vice President, Marketing of Vermilion
Peter Sider Biscarrosse, France	Vice President European Operations	Since July 2009, Vice President European Operations March 2008 to July 2009, Regional General Manager, European Operations 2006 to March 2008, Managing Director of Vermilion Oil & Gas Netherlands B.V., a subsidiary of the Company 1999 to 2006, founder of four private and public oil and gas companies in Alberta including Resolution Resources, EMBO Petroleum, Newheart Oil and Gas and Breakside Energy
Robert J. Engbloom, Q.C. Calgary, Alberta, Canada	Corporate Secretary	Since 1999, partner with Macleod Dixon LLP, a law firm

Common Shares

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

Cash Dividends

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

Record of Cash Dividends

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

Period	Distribution Amount for Period per Trust Unit
As Vermilion Energy Trust	
2003 – January 22 to December 31	$1.87
2004 – January to December	$2.04
2005 – January to December	$2.04
2006 – January to December	$2.04
2007 – January to December	$2.06
2008 – January to December	$2.28
2009 – January to December	$2.28
2010 – January to September (1)	$1.71
Period	**Dividend Amount for Period per Common Share**
As Vermilion Energy Inc.	
2010 – September to December (1)	$0.57
2011 – January to March	$0.57
Total cash dividends since January 22, 2003 (2)	$17.46

Note:

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

(2) On March 15, 2011, the Company announced that it would pay a cash dividend of $0.19 per common share to Shareholders of record as of March 31, 2011 on April 15, 2011. The total cash dividends since January 22, 2003 does not include the April dividend of $0.19.

Dividend Reinvestment Plan

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

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

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

Shareholder Rights Plan

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

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

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

(c) make reasoned recommendations to the Shareholders.

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

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

Summary of the Plan

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

Term

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

Issue of Rights

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

Rights Exercise Privilege

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

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

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

Permitted Lock-Up Agreement

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

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

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

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

Certificates and Transferability

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

Permitted Bid Requirements

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

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

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

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

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

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

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

Waiver and Redemption

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

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

Exemptions for Investment Advisors

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

Board of Directors

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

Amendment

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

AUDIT COMMITTEE MATTERS

Audit Committee Charter

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

Composition of the Audit Committee

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

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

External Audit Service Fees

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

During the years ended December 31, 2010 and 2009, Deloitte & Touche LLP, the auditors of the Company, received the following fees from the Company:

Item	2010	2009
Audit fees[1]	$1,389,597	$1,693,659
All other fees[2]	$22,239	$ 12,296

Notes:

(1) Audit fees consisted of professional services rendered by Deloitte & Touche LLP for the audit of the Company's financial statements for the years ended December 31, 2010 and 2009, fees for the review of the quarterly financial statements and services provided in connection with statutory and regulatory filings or engagements.

(2) For 2010, the amount reported relates to income tax compliance work and the 2009 figure relates to property tax consulting services.

MARKET FOR PRICE RANGE AND TRADING VOLUME OF SECURITIES

The outstanding Common Shares of the Company are listed and posted for trading on the TSX under the symbol VET, prior to the Conversion Arrangement, the Trust Units were listed for trading on the TSX under the symbol VET.UN. The following table sets forth the closing price range and trading volume of the common shares and the Trust Units for the periods indicated:

Trust Units 2010	High	Low	Close	Volume (000's)
January	$34.60	$31.57	$32.32	4,498
February	$34.82	$31.68	$34.82	3,944
March	$35.81	$34.04	$35.39	4,275
April	$36.36	$34.73	$35.25	3,472
May	$35.60	$31.25	$33.55	3,939
June	$35.75	$32.50	$33.67	3,897
July	$34.91	$32.21	$33.10	2,376
August	$35.92	$32.33	$35.67	4,980
September	$36.75	$35.51	$36.75	3,167
Common Shares 2010	**High**	**Low**	**Close**	**Volume (000's)**
September	$38.90	$35.15	$38.62	9,286
October	$40.60	$37.77	$39.94	3,365
November	$43.20	$38.57	$42.02	4,651
December	$47.59	$41.81	$46.22	4,539
Common Shares 2011	**High**	**Low**	**Close**	**Volume (000's)**
January	$47.80	$44.60	$47.36	3,413
February	$52.45	$45.87	$51.05	4,523

CREDIT RATINGS

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

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

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

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

Vermilion Rating

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

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

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

CONFLICTS OF INTEREST

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

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

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or officer of the Company, nor any other insider of the Company, nor their associates or affiliates has or has had, at any time within the three most recently completed financial years ending December 31, 2010, any material interest, direct or indirect, in any transaction or proposed transaction that has materially affected or would materially affect the Company.

LEGAL PROCEEDINGS

The Company is not party to any significant legal proceedings as of March 10, 2011.

MATERIAL CONTRACTS

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

INTERESTS OF EXPERTS

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

TRANSFER AGENT AND REGISTRAR

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

RISK FACTORS

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

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of proved and provable reserves and future net revenues to be derived therefrom, including many factors beyond the Company's control. The reserve and future net revenue information set forth in this annual information form represents estimates only. The reserves and estimated future net cash flow from the Company's properties have been independently evaluation by GLJ with an effective date of December 31, 2010. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of crude oil and natural gas, operating costs, well abandonment and salvage values, royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on prices in use at the date the GLJ Report was prepared, and many of these assumptions are subject to change and are beyond the Company's control. Actual production and cash flow derived therefrom will vary from these evaluations, and such variations could be material.

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

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

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

Volatility of Oil and Natural Gas Prices

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

Changes in Legislation

There can be no assurance that income tax laws and government incentive programs relating to the oil and gas industry in Canada and the foreign jurisdictions in which the Company operates, will not be changed in a manner which adversely affects the Company. This includes, but is not limited to the status of the resource allowance.

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

Government Regulations

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

Competition

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

The oil and gas industry is highly competitive. Vermilion's competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than Vermilion.

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

Operational Matters

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

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

Environmental Concerns

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

Kyoto Protocol

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

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

Debt Service

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

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

Delay in Cash Dividends

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

Changes in Income Tax Laws

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

Depletion of Reserves

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

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

Net Asset Value

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

Variations in Interest Rates and Foreign Exchange Rates

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

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

Increase in Operating Costs or Decline in Production Level

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

Acquisition Assumptions

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

Failure to Realize Anticipated Benefits of Prior Acquisitions

Vermilion has completed several acquisitions since December 31, 2008, which acquisitions were completed to strengthen its position in the oil and natural gas industry and to create the opportunity to realize certain benefits, including, among other things, potential cost savings. In order to achieve the benefits of these and future acquisitions, Vermilion will be dependent upon its ability to successfully consolidate functions and integrate operations, procedures and personnel in a timely and efficient manner and to realize the anticipated growth opportunities and synergies from combining the acquired assets and operations with those of the Company. The integration of acquired assets and operations requires the dedication of management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters during the process. The integration process may result in the disruption of ongoing business and customer relationships that may adversely affect Vermilion's ability to achieve the anticipated benefits of such prior acquisitions.

Additional Financing

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

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

Potential Conflicts of Interest

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

GAAP Adjustments

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

Lower oil and gas prices increase the risk of write-downs of Vermilion's oil and gas property investments. Under GAAP, the net capitalized cost of oil and gas properties may not exceed a "ceiling limit" that is based, in part, upon estimated future net cash flows from reserves. If the net capitalized costs exceed this limit, Vermilion must charge the amount of the excess against earnings. If oil and natural gas prices decline, Vermilion's net capitalized cost may exceed this ceiling, ultimately resulting in a charge against its earnings. While these write-downs would not affect cash flow, the charge to earnings could be viewed unfavourably in the market.

Market Accessibility

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

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

International Financial Reporting Standards

The requirement for Vermilion to implement International Financial Reporting Standards ("IFRS") to replace Canadian GAAP effective January 1, 2011 may materially affect the Company's financial results as reported in its financial statements and may require Vermilion to amend its Credit Facilities to address the changes in accounting principles. As of the date of this Annual Information Form, Vermilion has to yet finalize all of its accounting policies under IFRS. For additional information, see "International Financial Reporting Standards Transition" in the Company's management's discussion and analysis for the year ended December 31, 2010.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com. Additional information related to the remuneration and indebtedness of the directors and officers of the Company, and the principal holders of Common Shares and Rights to purchase Common Shares and securities authorized for issuance under the Company's equity compensation plans, where applicable, are contained in the information circular of the Company in respect of its most recent annual meeting of Shareholders involving the election of directors. Additional financial information is provided in the Company's audited financial statements and management's discussion and analysis for the year ended December 31, 2010.

SCHEDULE "A"

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

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

1. We have prepared an evaluation of the Company's reserves data as at December 31, 2010. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.

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

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

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

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2010, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate - $M) Audited	Evaluated	Reviewed	Total
GLJ Petroleum Consultants	February 9, 2011	Australia	-	735,393	-	735,393
GLJ Petroleum Consultants	February 9, 2011	Canada	-	647,069	-	647,069
GLJ Petroleum Consultants	February 9, 2011	France	-	1,143,741	-	1,143,741
GLJ Petroleum Consultants	February 9, 2011	Ireland	-	297,289		297,289
GLJ Petroleum Consultants	February 9, 2011	Netherlands	-	353,007	-	353,007
TOTAL				**3,176,498**		**3,176,498**

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

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

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

EXECUTED as to our reports referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, February 9, 2011

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

GLJ Petroleum Consultants

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

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

Management of Vermilion Energy Inc. (the "Company") are responsible for the preparation and disclosure, or arranging for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.

Independent qualified reserves evaluators have evaluated the Company's reserves data. The report of the independent qualified reserves evaluators is presented in Schedule A to the Annual Information Form of the Company for the year ended December 31, 2010.

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

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

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

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

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

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

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

(c) the content and filing of this report.

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

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

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

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

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

SCHEDULE "C"
TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

I. PURPOSE

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

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

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

C. All audit processes;

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

II. COMPOSITION AND OPERATIONS

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

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

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

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

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

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

III. DUTIES AND RESPONSIBILITIES

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

A. Financial Statements and Other Financial Information

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

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

---

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

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

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

Review and discuss:

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

B. Risk Management, Internal Control and Information Systems

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

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

C. External Audit

The External Auditor is required to report directly to the Committee, which will review the planning and results of external audit activities and the ongoing relationship with the external auditor. This includes:

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

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

D. Compliance

The Committee shall:

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

E. Other

The Committee shall:

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

IV. ACCOUNTABILITY

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

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

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EXHIBIT 99.2

VERMILION ENERGY INC.

2010 MANAGEMENT'S DISCUSSION AND ANALYSIS



ABBREVIATIONS

API	American Petroleum Institute
bbls	barrels
bbls/d	barrels per day
bcf	billion cubic feet
boe	barrel of oil equivalent
boe/d	barrel of oil equivalent per day
CBM	coalbed methane
CO_2	carbon dioxide
GJ	gigajoules
$m	thousands of dollars
$mm	millions of dollars
mbbls	thousand barrels
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmboe	million barrels of oil equivalent
mmcf	million cubic feet
mmcf/d	million cubic feet per day
MW	megawatt
NGLs	natural gas liquids
NPV	net present value
WTI	West Texas Intermediate

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;
- 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;
- Vermilion's additional` future payment in connection with the Corrib acquisition;
- the timing of regulatory proceedings and approvals;
- the timing of first commercial gas from the Corrib field;
- estimate of Vermilion's share of the expected gas rates from the Corrib field; and

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;
- currency, exchange 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 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 March 10, 2011 of Vermilion Energy Inc.'s ("Vermilion" or the "Company") operating and financial results for the years ended December 31, 2010 and 2009. This discussion should be read in conjunction with Vermilion's audited consolidated financial statements for the years ended December 31, 2010 and 2009, together with accompanying notes.

A discussion of Vermilion's operating and financial results for the fourth quarter of 2010 is included in Vermilion's press release dated February 28, 2011 filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

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

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 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 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 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 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 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:

	Years Ended December 31	
($M)	**2010**	**2009**
Cash flows from operating activities	**$ 421,282**	$ 230,316
Changes in non-cash operating working capital	**(64,656)**	76,782
Asset retirement obligations settled	**6,861**	10,139
Fund flows from operations	**$ 363,487**	$ 317,237

"Acquisitions, including acquired working capital deficiency" is the sum of "Acquisition of petroleum and natural gas properties" and "Corporate acquisitions, 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:

	Years Ended December 31	
($M)	**2010**	**2009**
Acquisition of petroleum and natural gas properties from consolidated statements of cash flows	**$ 6,655**	$ 159,536
Working capital deficiencies acquired from acquisitions	**-**	57,507
Acquisitions, including acquired working capital deficiency	**$ 6,655**	$ 217,043

"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:

	As at December 31	
($M)	**2010**	**2009**
Long-term debt	**$ 302,558**	$ 159,723
Current liabilities	**340,934**	217,563
Current assets	**(343,099)**	(256,886)
Net debt	**$ 300,393**	$ 120,400

"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. Net dividends is reconciled below to dividends declared, the most directly comparable GAAP measure:

	Years Ended December 31	
($M)	**2010**	**2009**
Dividends declared	**$ 189,744**	$ 166,385
Issue of shares pursuant to the dividend reinvestment plan	**(40,824)**	-
Net dividends	**$ 148,920**	$ 166,385

"Total net dividends, capital expenditures, reclamation fund withdrawals 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", "Withdrawals from the 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:

	Years Ended December 31	
($M)	**2010**	**2009**
Dividends declared	**$ 189,744**	$ 166,385
Issue of shares pursuant to the dividend reinvestment plan	**(40,824)**	-
Drilling and development of petroleum and natural gas properties	**432,182**	194,666
Withdrawals from the reclamation fund	**(812)**	-
Asset retirement obligations settled	**6,861**	10,139
Total net dividends, capital expenditures, reclamation fund withdrawals and asset retirement obligations settled	**$ 587,151**	$ 371,190

"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 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 December 31	
(Number of shares)	**2010**	**2009**
Basic weighted average shares outstanding	**83,155,116**	72,405,606
Shares issuable pursuant to exchangeable shares outstanding	**5,057,989**	7,279,431
Adjusted basic weighted average shares outstanding	**88,213,105**	79,685,037

	As at December 31	
(Number of shares)	**2010**	**2009**
Shares outstanding	**88,998,242**	79,523,028
Shares issuable pursuant to exchangeable shares outstanding	**-**	7,219,261
Adjusted basic shares outstanding	**88,998,242**	86,742,289
Potential shares issuable pursuant to equity based compensation plans	**2,145,427**	1,497,422
Diluted shares outstanding	**91,143,669**	88,239,711

"Diluted adjusted weighted average shares outstanding" is the sum of diluted weighted average shares outstanding as presented on the consolidated statements of earnings, plus the weighted average amount of exchangeables outstanding for the period which were considered anti-dilutive for the purposes of calculating earnings per share.

HIGHLIGHTS

($M except per share amounts or when otherwise stated)	**2010**	**2009**	**2008**
Revenue	**$ 727,805**	$ 639,751	$ 1,001,905
Net earnings	**111,263**	185,498	229,189
Per share, basic	**1.34**	2.56	3.30
Per share, diluted	**1.32**	2.53	3.23
Fund flows from operations	**363,487**	317,237	573,966
Per share, adjusted basic	**4.12**	3.98	7.49
Return on equity (%)	**9.5**	20.7	33.2
Total assets	**2,581,716**	2,084,676	1,798,359
WTI (US $/bbl)	**79.53**	61.80	99.65
AECO ($/mcf)	**4.00**	3.95	8.13
Realized price ($/boe)	**62.06**	55.83	83.61
Fund flows netback ($/boe)	**$ 30.99**	$ 27.69	$ 47.91

2010 Summary of Quarterly Results				
($M except per share)	**Q1**	**Q2**	**Q3**	**Q4**
Revenue	$ 169,581	$ 169,545	$ 172,253	$ 216,426
Net earnings	42,508	44,027	8,911	15,817
Per share, basic	0.53	0.55	0.11	0.18
Per share, diluted	$ 0.53	$ 0.54	$ 0.10	$ 0.18
2009 Summary of Quarterly Results				
($M except per share)	**Q1**	**Q2**	**Q3**	**Q4**
Revenue	$ 146,236	$ 162,788	$ 150,183	$ 180,544
Net earnings	19,884	24,880	17,834	122,900
Per share, basic	0.28	0.35	0.25	1.60
Per share, diluted	$ 0.28	$ 0.35	$ 0.25	$ 1.59

VERMILION OVERVIEW

Vermilion aims to provide superior rewards and stability to its stakeholders though the execution of a successful strategy based on quality assets and proven leadership.

Stability
Vermilion's disciplined, value driven strategy has resulted in the delivery of stable dividends to our shareholders. In December 2007, Vermilion increased its dividends by 12% to $0.19 per month and it has maintained that level since. This element of financial stability is further demonstrated by Vermilion's strong balance sheet which provides significant financial flexibility to pursue opportunities as they arise.

Adherence to strong core values at all levels have contributed to Vermilion's success. Vermilion's Board of Directors has been recognized in corporate governance surveys for excellence in governance practices that included board composition, compensation, shareholder rights, disclosure, accountability and total return performance.

Successful Strategy
Vermilion is an oil-leveraged producer that adheres to a value creation strategy through the execution of full cycle exploration and production programs focused on the acquisition, exploration, development and optimization of producing properties in Western Canada, Western Europe and Australia. Vermilion is targeting 10% annual growth in production through the exploitation of conventional resource plays in Western Canada, including Cardium light oil and liquids-rich natural gas, the exploration and development of high impact natural gas opportunities in the Netherlands and through drilling and workover programs in France and Australia. Vermilion also expects to realize a material increase in both production and fund flows at the onset of production from the Corrib gas field in Ireland.

Quality Assets
Vermilion targets acquisition properties that deliver strong cash netbacks and have an abundance of low risk opportunities. In executing its strategy, Vermilion has acquired quality assets in five different countries.

Canada
Vermilion has an interest in over 600 net wells in three core areas, all in Alberta. The properties include a significant light oil field at Utikuma, multiple level, and liquids-rich tight gas reservoirs and Cardium oil opportunities in the Drayton Valley region and a CBM and shallow gas development in Central Alberta. Vermilion controls approximately 269,409 net acres of developed land, 169,905 net acres of undeveloped land and operates a number of oil and natural gas processing facilities with combined throughput of 89 mmcf/d of natural gas. Vermilion maintains a steady program of drilling and recompletions in the Drayton Valley region and is evaluating new completion techniques that are revitalizing certain reservoirs in the area.

France
Vermilion initially acquired its France assets in 1997 and in 2006 added additional and complementary assets to its French asset base. Vermilion's properties in France produce 98% oil and include three large fields at Chaunoy, Cazaux and Parentis. Vermilion is focusing on increasing P50 oil recovery and extending the reserve life from these fields through an active workover program. Vermilion's reserve life index in France is approximately 13 years and these properties represent a core focus of Vermilion's operations and a stable contribution to overall production. Vermilion continues to optimize through the use of water floods and is reviewing future resource development opportunities including an emerging Lias shale oil play in the Paris Basin. Vermilion holds a land position of approximately 176,000 net acres in the heart of this play, which could hold world-class resource potential.

Netherlands
Acquired in 2004, Vermilion's Netherlands assets produce natural gas which is sold in a regulated environment at a primarily oil-based index price. In February 2010, Vermilion announced it had achieved 100% success from its recent four-well drilling program with combined estimated initial production volumes in excess of 4,000 boe/d, net to Vermilion, with approximately 2000 boe/d brought on production during 2010 and the balance scheduled to be on production in 2011. Natural gas prices in the Netherlands are leveraged to a basket of primarily oil-based energy indices providing a strong incentive to increase activity levels over the coming years. Vermilion believes that there are numerous potential prospects in this region and plans to continue drilling in the Netherlands during 2011.

Australia
Vermilion initially acquired a 60% interest in the Wandoo field located offshore the northwest shelf of Australia in 2005. In 2006 and 2007, Vermilion significantly expanded fluid handling and processing capacity on the platform from approximately 114,000 bbls to 150,000 bbls. In 2007, Vermilion acquired the remaining 40% of this oil producing asset. In December 2008, Vermilion announced it had successfully drilled and completed two new 'attic oil' wells. Three additional wells were drilled in 2010 providing better than anticipated production as well as additional infill locations and workover opportunities in 2011 that should help sustain volumes of between 8,000 and 10,000 boe/d through to 2012.

Ireland
Vermilion acquired an 18.5% non-operated interest in the Corrib field located approximately 83 kilometres off the northwest coast of Ireland in 2009. Net production to Vermilion is initially anticipated at approximately 9,000 boe/d when the field is put on production. The Corrib asset will further enhance Vermilion's global asset base and is anticipated to deliver strong, accretive returns. The Corrib acquisition is consistent with Vermilion's focus on Western Europe and will provide another strong foothold in an attractive European energy market and a path for identifiable growth over the next few years.

Proven Leadership
The members of Vermilion's executive management team average more than 25 years of operating experience and are led by Lorenzo Donadeo, President and CEO, who is one of the three co-founders of the predecessor company, Vermilion Resources Ltd. Vermilion and its management team have a strong track record of providing high returns to shareholders.

2010 REVIEW AND 2011 GUIDANCE

The following table summarizes Vermilion's 2010 actual results as compared to guidance and Vermilion's 2011 guidance:

	Date	Capital Expenditures ($MM)	Production (boe/d)
2010 Guidance	November 6, 2009	$ 295 to $330	29,000 - 31,000
Updated	March 3, 2010	$ 350	31,000
Updated	May 7, 2010	$ 450	31,000
Updated	June 3, 2010	$ 450	31,000 - 32,000
2010 Actual	February 28, 2011	$ 432.2	32,132
2011 Guidance	November 5, 2010	$ 460	35,000 - 36,000

Production volumes for 2011 are expected to average between 35,000 and 36,000 boe/d. Development capital expenditures for 2011 are budgeted to be approximately $460 million of which a significant component is to be invested towards Vermilion's Cardium light oil prospects in Drayton Valley and liquids-rich natural gas opportunities and Ireland's onshore pipeline construction and advancement.

OPERATIONAL ACTIVITIES

Canada

In Canada, Vermilion participated in the drilling of 55 wells (40 net) during 2010, resulting in 13 gas wells (8.8 net), 28 oil wells (18.9 net), and 14 standing CBM wells (12.3 net). These wells included 15 operated (13.6 net) Cardium horizontal wells and 13 non-operated (5.4 net) Cardium wells. At year end, 11 operated (10.5 net) Cardium wells were on production and seven non-operated (3.2 net) wells were on production. While drilling activity will remain steady through the first half of 2011, some completions and tie-ins will be deferred until the 15,000 bbls/d oil processing facility is in service, which is expected in August 2011.

France

In France, Vermilion drilled the Les Mimosas-2 well in 2010, a water injection well designed to provide pressure support for the Les Mimosas reservoir which was discovered in 2004. Production from the lone producing well in this field increased more than 200 boe/d in response to water injection. Two small fracture stimulations in the Lias shale play were completed in 2010, primarily to gather pressure, fluid and other technical data from this formation. These zones were perforated in existing vertical wellbores and the completions were not designed to test commerciality. Both wells are producing, but at nominal rates. An active workover and recompletion program included 26 well workovers in 2010, predominantly in the Chaunoy Field in the Paris Basin and the Cazaux Field in the Aquitaine Basin.

Netherlands

In the Netherlands, Vermilion completed the De Hoeve-1 well in early 2010, and tied-in the Middleburen-2 and Middenmeer-3 wells in the spring of 2010. The balance of 2010 operations focused on regular facility and well maintenance and ongoing work to secure pipeline and production permits for the Vinkega-1 and De Hoeve-1 wells. Vermilion plans to commence a four-well exploration program in August 2011 and will continue to pursue drilling permits for 2012.

Australia

Vermilion drilled and completed three wells in September and October of 2010, all of which were lateral extensions of existing wellbores. These complex wells were completed within budget and produced results ahead of expectations. No drilling is scheduled in 2011, but Vermilion will undertake some well workover operations and prepare for the 2012 drilling program.

PRODUCTION

	Year Ended December 31, 2010			Year Ended December 31, 2009			Year Ended December 31, 2008		
	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	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	43.91	11,524	3,654	47.85	11,629	4,172	51.15	12,696
France	8,347	0.92	8,501	8,246	1.05	8,421	8,514	1.17	8,710
Netherlands	35	28.31	4,753	23	21.06	3,533	24	27.23	4,562
Australia	7,354	-	7,354	7,812	-	7,812	6,773	-	6,773
Total	19,941	73.14	32,132	19,735	69.96	31,395	19,483	79.55	32,741

2010 Quarterly Production (boe/d)	Q1	Q2	Q3	Q4
Canada	11,514	11,434	11,233	11,913
France	8,057	8,472	8,741	8,723
Netherlands	3,519	5,269	5,099	5,105
Australia	7,094	6,522	6,225	9,561
Total	30,184	31,697	31,298	35,302

2009 Quarterly Production (boe/d)	Q1	Q2	Q3	Q4
Canada	12,008	12,288	11,212	11,021
France	8,395	8,628	8,257	8,407
Netherlands	3,936	3,391	3,351	3,464
Australia	8,612	7,931	7,598	7,124
Total	32,951	32,238	30,418	30,016

Average total production in Canada of 11,524 boe/d during 2010 was relatively unchanged as compared to 11,629 boe/d in 2009, as natural declines offset early production increases from the Cardium program. However, fourth quarter 2010 production was 8.1% higher than production levels in the fourth quarter of 2009, providing evidence of the beginnings of a growing production base. Even more noticeable is year over year growth in oil and NGL production of 15.1%, reflecting the onset of new Cardium production. Canadian production is expected to show continued growth in 2011, predominantly related to oil and NGLs as Vermilion increases Cardium oil drilling activities. That growth will become more apparent in the fourth quarter of 2011, once the planned production facility is brought on line.

Production in France averaged 8,501 boe/d in 2010, slightly higher than average 2009 production of 8,421 boe/d. Production is maintained reasonably stable using an active well workover program. Only two new wells are scheduled in 2011, but another active workover program should serve to maintain stable production again this year.

Production in the Netherlands increased by 1,220 boe/d in 2010, a gain of more than 30%, as production from two new wells commenced in April 2010. Two additional wells are expected to add up to 2,000 boe/d of production when they are brought on-stream in mid-2011. Netherlands production is expected to see continued production increases from new drilling, although the timing of those increases is less predictable due to the extensive production permitting process.

Australia production averaged 7,354 boe/d in 2010, compared to 7,812 boe/d in 2009 due to natural declines. Production from three new wells which commenced in early November significantly impacted fourth quarter 2010 volumes which averaged 9,561 boe/d a gain of more than 2,400 boe/d compared to the fourth quarter of 2009. Vermilion expects to sustain annual average production at approximately 9,000 boe/d over the next few years. First quarter 2011 production is expected to be reduced due to cyclone related shut-downs of the production platform. The cyclone season in Australia normally runs from December through March of each year. In the case of severe storms, Vermilion shuts-in all production and evacuates the platform as a security precaution.

FINANCIAL REVIEW

During the year ended December 31, 2010, Vermilion generated fund flows from operations of $363.5 million compared to $317.2 million in 2009. The year over year increase in fund flows from operations of $46.3 million is primarily a result of increased revenue associated with stronger oil prices and higher average production volumes. The GAAP measure, cash flows from operating activities, similarly increased year over year to $421.3 million for the year ended December 31, 2010 from $230.3 million for 2009.

During the year ended December 31, 2010, the price of WTI crude oil averaged US $79.53 per bbl (2009 – US $61.80 per bbl) and the price of Brent crude oil averaged US $79.47 per bbl (2009 – US $61.51 per bbl). The AECO price for gas averaged $4.00 per mcf (2009 – $3.95 per mcf). On a year over year basis, the average price for crude oil was higher in 2010 compared to 2009, while the average AECO price has remained relatively consistent year over year.

At December 31, 2010, Vermilion's net debt was $300.4 million as compared to the net debt of $120.4 million at December 31, 2009. Vermilion's long-term debt has increased to $302.6 million at December 31, 2010 from $159.7 million at December 31, 2009. At December 31, 2010, Vermilion's net debt represented 75.0% of its fourth quarter annualized fund flows from operations. The year over year increases in net debt and long-term debt are a function of Vermilion's capital expenditures largely driven by Canadian land acquisitions during the first half of 2010, continued Cardium light oil development activity during 2010 as well as the Australia drilling program. The impact of these expenditures on net debt was partially offset by the liquidation of the reclamation fund assets in July 2010 (see Reclamation Fund for further information) and proceeds from the dividend reinvestment plan. The low level of net debt at December 31, 2009 reflects that year's trust unit issuance and the sale of the Company's investment in Verenex Energy Inc. ("Verenex").

For the year ended December 31, 2010, total net dividends, capital expenditures (excluding those on the Corrib project), reclamation fund withdrawals and asset retirement obligations settled as a percentage of fund flows from operations was 140% versus 103% for the corresponding period in the prior year. The year over year increase in this ratio relates to Vermilion's land acquisitions, Cardium light oil development and the Australian drilling program during 2010. The year over year increase was partially offset by decreased capital expenditures in the other jurisdictions in which Vermilion operates.

CAPITAL EXPENDITURES

Capital Expenditures by Category ($M)	**2010**	**2009**	**2008**
Land	**$ 97,215**	$ 15,868	$ 5,183
Seismic	**6,600**	1,847	10,989
Drilling and completion	**167,771**	55,989	78,542
Production equipment and facilities	**114,369**	77,588	56,974
Recompletions	**14,798**	19,282	19,789
Other	**31,429**	24,092	15,359
	432,182	194,666	186,836
Acquisitions (excluding acquired working capital deficiency)	**6,655**	159,536	48,230
Total capital expenditures by category	**$ 438,837**	$ 354,202	$ 235,066

Capital Expenditures by Country ($M)	**2010**	**2009**	**2008**
Canada	**$ 242,900**	$ 75,973	$ 103,725
France	**54,965**	62,457	55,669
Netherlands	**11,017**	26,338	13,019
Australia	**51,457**	6,739	62,653
Ireland	**78,498**	182,695	-
Total capital expenditures by country	**$ 438,837**	$ 354,202	$ 235,066

Total capital expenditures, including acquisitions for the year ended December 31, 2010 was $438.8 million compared to $354.2 million in 2009.

Capital expenditures excluding acquisitions has increased year over year as a result of the significant land acquisitions and development activity associated with Vermilion's focus on Western Canadian resource plays. Also contributing to the higher levels of capital expenditures were costs incurred related to the 2010 Australian drilling program and post acquisition capital costs on the Corrib project.

Acquisition spending was higher in the prior year as a result of the Corrib acquisition which was completed on July 30, 2009 for $136.8 million as well as Drayton Valley area property acquisitions totalling $15.1 million.

In Ireland, oral hearings related to the amended Corrib onshore pipeline were completed on October 1, 2010. On January 20, 2011, Vermilion announced that An Bord Pleanála had granted permission for the construction of the Corrib gas onshore pipeline in Ireland. The Corrib Gas Partners look forward to completing this strategically important project and delivering the gas to Ireland. At peak production, Corrib gas is expected to supply up to 60% of Ireland's natural gas needs and is consequently expected to play an important role in Ireland's energy security in the years ahead.

FUND FLOWS NETBACKS

2010 Fund Flows Netback ($/boe)	Q1	Q2	Q3	Q4	2010	2009	2008
Oil and gas revenues	$ 62.43	$ 58.78	$ 59.82	$ 66.64	**$ 62.06**	$ 55.83	$ 83.61
Realized hedging gain or (loss)	0.45	1.31	1.32	1.34	**1.12**	0.47	(0.89)
Royalties	(10.34)	(4.56)	(4.51)	(9.02)	**(7.12)**	(8.52)	(10.92)
Transportation	(2.56)	(2.39)	(2.27)	(1.94)	**(2.28)**	(1.65)	(1.96)
Operating costs	(13.38)	(11.31)	(12.51)	(12.20)	**(12.33)**	(12.18)	(11.98)
Operating netback	36.60	41.83	41.85	44.82	**41.45**	33.95	57.86
General and administration	(3.74)	(3.34)	(3.61)	(3.90)	**(3.65)**	(2.72)	(2.07)
Interest	(1.12)	(1.28)	(1.10)	(1.07)	**(1.14)**	(1.16)	(1.36)
Current taxes	(3.67)	(6.25)	(5.33)	(9.04)	**(6.20)**	(2.57)	(6.99)
Proceeds on sale of investments	-	-	-	-	**-**	0.23	0.01
Other income	-	-	0.20	0.01	**0.05**	-	-
Foreign exchange	0.77	0.39	0.80	0.02	**0.48**	(0.04)	0.46
Fund flows netback	$ 28.84	$ 31.35	$ 32.81	$ 30.84	**$ 30.99**	$ 27.69	$ 47.91

2009 Fund Flows Netback ($/boe)	Q1	Q2	Q3	Q4
Oil and gas revenues	$ 49.31	$ 55.49	$ 53.67	$ 65.38
Realized hedging gain	0.75	0.24	0.39	0.50
Royalties	(7.32)	(6.17)	(8.30)	(12.53)
Transportation	(1.47)	(1.51)	(1.33)	(2.33)
Operating costs	(11.52)	(11.70)	(12.24)	(13.35)
Operating netback	29.75	36.35	32.19	37.67
General and administration	(2.29)	(2.55)	(2.93)	(3.16)
Interest	(0.60)	(0.43)	(1.47)	(2.21)
Current taxes	(3.14)	(3.40)	(2.31)	(1.33)
Proceeds on sale of investments	-	-	-	0.97
Other income	-	-	(0.02)	0.01
Foreign exchange	(0.65)	(0.83)	(0.67)	2.09
Fund flows netback	$ 23.07	$ 29.14	$ 24.79	$ 34.04

REVENUE

	Years Ended December 31	
($M except per boe and per mcf)	**2010**	**2009**
Crude oil & NGLs	**$ 578,926**	$ 496,331
Per boe	**$ 79.54**	$ 68.90
Natural gas	**148,879**	143,420
Per mcf	**$ 5.58**	$ 5.62
Petroleum and natural gas revenue	**$ 727,805**	$ 639,751
Per boe	**$ 62.06**	$ 55.83

Revenue for the year ended December 31, 2010 was $727.8 million compared to $639.8 million in 2009. Vermilion's combined crude oil and NGL price was $79.54 per boe in 2010, an increase of 15.4% over the $68.90 per boe reported in 2009. The natural gas price realized was $5.58 per mcf in 2010, a marginal decrease over the $5.62 per mcf reported in 2009. Vermilion's increased revenue year over year resulted from higher crude oil prices and higher average production volumes during 2010 as compared to 2009.

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

Ending Inventory Positions (France and Australia)	As at Dec 31, 2010	As at Sep 30, 2010	As at Jun 30, 2010	As at Mar 31, 2010
France (bbls)	**158,229**	149,268	163,515	179,404
France ($M)	**$ 4,599**	$ 4,574	$ 4,663	$ 5,448
Australia (bbls)	**172,199**	107,744	60,146	61
Australia ($M)	**$ 6,108**	$ 3,529	$ 1,784	$ 2

DERIVATIVE INSTRUMENTS

The following table summarizes Vermilion's outstanding financial derivative positions as at December 31, 2010.

Risk Management: Oil	Funded Cost	bbls/d	US $/bbl
Collar - WTI			
January 2011 to June 2011	US $1.00/bbl	2,400	$ 80.00 - $107.60
January 2011 to June 2011	US $1.00/bbl	2,400	$ 75.00 - $ 97.85
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
Collar - BRENT			
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
Call Spread - BRENT			
January 2011 to December 2011	US $6.08/bbl[1]	960	$ 65.00 - $ 85.00
January 2011 to December 2011	US $5.15/bbl[1]	600	$ 65.00 - $ 85.00
Risk Management: Natural Gas	**Funded Cost**	**GJ/d**	**$/GJ**
SWAP - AECO			
January 2011 to October 2011	$0.00/GJ	700	$ 5.13
Risk Management: Foreign Exchange		**Notional Principal ($US) / Month**	**Fixed rate ($CDN / $US)**
US Dollar Forward Sale			
January 2011 to December 2011		$ 750,000	$ 1.07
January 2011 to December 2011		$ 750,000	$ 1.07

[1] The funded amounts for these instruments were paid in a prior period.

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 not to 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 may enter 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 impact of Vermilion's derivative based risk management activities increased the fund flows netback by $1.12 per boe for the year ended December 31, 2010. This compares to a hedging gain $0.47 per boe in 2009.

ROYALTIES

	Years Ended December 31	
($M except per boe and per mcf)	**2010**	**2009**
Crude oil & NGLs	**$ 79,093**	$ 92,226
Per boe	**$ 10.87**	$ 12.80
Natural gas	**4,416**	5,406
Per mcf	**$ 0.17**	$ 0.21
Royalties	**$ 83,509**	$ 97,632
Per boe	**$ 7.12**	$ 8.52

Consolidated royalties per boe for the year ended December 31, 2010 were $7.12 as compared to $8.52 in 2009. As a percentage of revenue for the year ended December 31, 2010 royalties were 11% as compared to 15% in 2009.

In Australia, royalties as a percentage of revenue for the year ended December 31, 2010 were 18% as compared to 27% in 2009. Royalties are reduced by capital investment in the country and as such, royalties for the year ended December 31, 2010 as a percentage of revenue decreased as compared to 2009 as a result of higher levels of capital expenditures associated with the drilling of new wells in 2010. Pursuant to requirements under International Financial Reporting Standards, commencing in 2011, Vermilion will report royalties paid in Australia as an income tax. Please see International Financial Reporting Standards Transition in this document.

Canadian royalties as a percentage of revenue for the year ended December 31, 2010, have remained consistent at 15% compared to the same period in 2009. The impact of higher oil prices on royalty rates was offset by the effect of changes in the Alberta royalty regime made in 2009 which impacted the wells drilled in 2010 coupled with the impact of lower gas volumes on royalty rates.

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 the year ended December 31, 2010 compared to 2009 royalties as a percentage of revenue decreased to 6% in 2010 compared to 8% in 2009.

Production in the Netherlands is not subject to royalties.

OPERATING EXPENSE

	Years Ended December 31	
($M except per boe and per mcf)	**2010**	**2009**
Crude oil & NGLs	**$ 98,278**	$ 91,338
Per boe	**$ 13.50**	$ 12.68
Natural gas	**46,317**	48,268
Per mcf	**$ 1.73**	$ 1.89
Operating expense	**$ 144,595**	$ 139,606
Per boe	**$ 12.33**	$ 12.18

Consolidated operating expense per boe for the year ended December 31, 2010 was $12.33 compared to $12.18 for 2009.

Canadian operating expense per boe has decreased to $9.71 compared to $10.13 for the same period in 2009. The decrease is attributable to lower gas processing expense and higher operating fee recoveries partially offset by increased downhole intervention spending.

Operating expense per boe in France increased in 2010 to $14.02 compared to $12.40 for the same period in 2009. The increase is a result of higher levels of downhole maintenance spending in 2010 compared to 2009.

Australian operating expense increased to $15.66 per boe in 2010 from $13.82 per boe for the same period in 2009. The increase is attributable to higher labour expenses combined with lower levels of production.

Operating expense in the Netherlands decreased in 2010 to $10.50 per boe from $14.78 per boe in 2009. The decrease is related to higher levels of production and lower fuel and electricity expenses.

TRANSPORTATION EXPENSE

	Years Ended December 31	
($M except per boe)	**2010**	**2009**
Transportation expense	**$ 26,698**	$ 18,939
Per boe	**$ 2.28**	$ 1.65

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 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 expense is 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 expense relating to Vermilion's production in these countries.

Transportation expense increased during the year ended December 31, 2010 compared to the prior year as a result of the ship or pay pipeline tariff charges related to the Corrib project being included in the 2010 results for a full year as compared to only a portion in 2009. As there is a ceiling on the total payments due in relation to the pipeline, these expenses essentially represent a prepayment for future pipeline transportation services.

GENERAL AND ADMINISTRATION EXPENSE

	Years Ended December 31	
($M except per boe)	**2010**	**2009**
General and administration expense	**$ 42,842**	$ 31,192
Per boe	**$ 3.65**	$ 2.72

General and administration expense per boe for the year ended December 31, 2010 was $3.65 compared to $2.72 in 2009. The increase year over year is associated with the head office relocation as well as 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.

EQUITY BASED COMPENSATION EXPENSE

	Years Ended December 31	
($M except per boe)	**2010**	**2009**
Equity based compensation expense	**$ 28,170**	$ 18,196
Per boe	**$ 2.40**	$ 1.59

Non-cash equity based compensation expense for the year ended December 31, 2010 was $28.2 million as compared to $18.2 million in 2009. This expense relates to the value attributable to long-term incentives granted to officers, employees and directors under the Vermilion Incentive Plan, formerly the Trust Unit Award Incentive Plan and Vermilion's bonus plan. The year over year increase in equity based compensation expense reflects Vermilion's achievement of a performance factor of two for 2010.

INTEREST EXPENSE

($M except per boe)	Years Ended December 31 2010	2009
Interest expense	**$ 13,370**	$ 13,268
Per boe	**$ 1.14**	$ 1.16

Interest expense for the year ended December 31, 2010 at $13.4 million was consistent with the $13.3 million recorded in 2009.

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

($M except per boe)	Years Ended December 31 2010	2009
Depletion, depreciation and accretion expense	**$ 271,556**	$ 248,726
Per boe	**$ 23.15**	$ 21.71

Depletion, depreciation and accretion expense per boe for the year ended December 31, 2010 was $23.15 as compared to $21.71 in 2009. The increase results from the redemption of the remaining exchangeable shares pursuant to the corporate conversion which resulted in an increase to capital assets of $189.9 million (see Note 9 of the consolidated financial statements).

TAXES

($M except per boe)	Years Ended December 31 2010	2009
Current taxes	**$ 72,701**	$ 29,429
Per boe	**$ 6.20**	$ 2.57

Vermilion is subject to current taxes in France, the Netherlands and Australia. Current taxes for the year ended December 31, 2010 increased to $72.7 million compared to $29.4 million in 2009. The increases are attributable to the higher year over year revenue associated with increased levels of production and stronger oil prices as well as a one-time adjustment related to the elimination of a tax incentive program in France. As a result of Vermilion's Canadian tax pools, the Company does not presently pay income taxes in Canada.

As at December 31, 2010, Vermilion had the following tax pools:

($M)	Oil & Gas Assets	Tax Losses[5]	Other	Total
Canada	$ 539,625 (1)	$ 343,254	$ 10,528	**$ 893,407**
France	86,972 (3)	-	-	**86,972**
Australia	214,590 (1)	-	-	**214,590**
Netherlands	32,169 (2)	-	-	**32,169**
Ireland	557,064 (4)	99,927	-	**656,991**
Total	$ 1,430,420	$ 443,181	$ 10,528	**$ 1,884,129**

(1) Deduction calculated by various declining balance rates
(2) Deduction calculated by unit of production method
(3) Deduction calculated by combination of straight-line over the assets life and unit of production method
(4) Deduction for development expenditures at 100%
(5) Losses are deductible at 100% against taxable income

FOREIGN EXCHANGE

($M except per boe)	Years Ended December 31 2010	2009
Foreign exchange (gain)	**$ (26,132)**	$ (39,894)
Per boe	**$ (2.23)**	$ (3.48)

During the year ended December 31, 2010, a combined realized and unrealized foreign exchange gain of $26.1 million was recognized versus $39.9 million in 2009. The gain in 2010 is comprised of a realized gain of $5.6 million associated with cash repatriations and an unrealized, non-cash gain of $20.5 million. The unrealized gain in 2010 is largely related to the translation of foreign currency denominated future income taxes and asset retirement obligations to Canadian dollars. Since December 31, 2009, the Canadian dollar has strengthened against the Euro resulting in this unrealized gain.

NET EARNINGS

Net earnings for the year ended December 31, 2010 were $111.3 million or $1.34 per share as compared to $185.5 million or $2.56 per share for the year ended December 31, 2009. The decrease in earnings is largely related to the absence of the gain on sale of Verenex as well as higher income tax expense during 2010 as compared to 2009.

LIQUIDITY AND CAPITAL RESOURCES

($M except ratios)	2010	2009	2008
Net debt	**$ 300,393**	$ 120,400	$ 207,753
Bank facilities	**$ 675,000**	$ 675,000	$ 675,000
Unused bank facilities	**$ 374,607**	$ 554,600	$ 467,247
Net debt to annual fund flows from operations ratio [1]	**0.83**	0.38	0.36
Net debt to equity ratio [1]	**0.23**	0.12	0.28

[1] These are non-GAAP measures and may not be comparable to similar measures for other entities. See "Non-GAAP Measures" for further detail.

Vermilion's net debt as at December 31, 2010 was $300.4 million compared to $120.4 million as at December 31, 2009.

As at December 31, 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 do not extend the term of the revolving facility, the amounts outstanding become repayable 24 months after the expiry 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 December 31, 2010.

Effective January 15, 2010, Vermilion reinstated the dividend reinvestment plan. Cash flows from financing activities for the twelve months ended December 31, 2010 included cash flows related to the issuance of shares pursuant to the dividend reinvestment plan of $40.8 million and there were no proceeds related to the program in 2009.

On February 10, 2011, Vermilion closed a private placement offering of $225 million of senior unsecured notes. 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. Concurrent with the issuance of the notes, the Company's credit facility was reduced from $675 million to $635 million.

Vermilion has a long-term and short-term need for capital. Short-term working capital is required to finance accounts receivable, crude oil inventory and other similar short-term assets. Short-term capital may also be used from time to time to fund cash dividends allowing the Company to maintain consistent monthly cash dividends to shareholders of Vermilion. The acquisition and development of petroleum and natural gas properties requires both short-term and long-term capital. There are essentially three methods of financing the capital needs of Vermilion: internally generated cash, debt and equity.

Internally generated cash is used primarily for dividends and development capital requirements. Internal cash flow is significantly influenced by commodity prices. Other risks include exchange rates, interest rates and marketing opportunities, among others. Vermilion's business model generally maintains total dividends and capital development expenditures below internally generated cash, using the excess to reduce outstanding indebtedness. At times, the volatility of commodity prices and/or requirements of certain capital programs may result in total dividends and capital development expenditures exceeding internally generated cash for short periods.

Future significant acquisitions of producing properties are expected to be financed through additional bank debt combined with the issuance of common shares, if necessary. The Company's ability and desire to finance acquisitions through the issuance of equity is dependent upon the nature of the market for the issuance of equity as well as the size of the potential acquisition. It is Vermilion's preference to finance acquisitions with debt whenever practicable. In the event that Vermilion considers equity financing appropriate, its ability to issue equity is highly dependent on the receptivity of the equity markets.

Payments due by period

($M)	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt obligations [1]	$ 304,100	$ -	$ 304,100	$ -	$ -
Amount due pursuant to acquisition	134,271	-	134,271	-	-
Operating lease obligations	78,765	5,864	13,690	13,690	45,521
Total	$ 517,136	$ 5,864	$ 452,061	$ 13,690	$ 45,521

[1] Does not include interest.

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 December 31, 2010, Vermilion's asset retirement obligations were $274.6 million compared to $237.1 million as at December 31, 2009. The increase is largely attributable to a change in estimate stemming from the availability of better data associated with the abandonment obligations for Vermilion's Netherlands operations as well as accretion on the obligation partially offset by the impact of exchange rates on foreign currency denominated obligations.

DIVIDENDS

Sustainability of Dividends

($M)	Three Months Ended Dec 31, 2010	Year Ended Dec 31, 2010	Year Ended Dec 31, 2009	Year Ended Dec 31, 2008
Cash flows from operating activities	**$ 127,191**	**$ 421,282**	$ 230,316	$ 660,135
Net earnings	**$ 15,817**	**$ 111,263**	$ 185,498	$ 229,189
Dividends declared	**$ 50,664**	**$ 189,744**	$ 166,385	$ 158,674
Excess of cash flows from operating activities over cash dividends declared	**$ 76,527**	**$ 231,538**	$ 63,931	$ 501,461
(Shortfall) excess of net earnings over cash dividends declared	**$ (34,847)**	**$ (78,481)**	$ 19,113	$ 70,515

Vermilion maintained monthly dividends at $0.19 per share for the year ended December 31, 2010 and declared dividends totalling $189.7 million compared to $166.4 million for the same period in 2009.

Since inception, Vermilion has declared $1.1 billion in dividends to shareholders as compared to shareholders' capital of $1.0 billion at December 31, 2010.

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 and Cardium projects 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 year ended December 31, 2010, 9,475,214 shares were issued pursuant to the conversion of exchangeable shares, the dividend reinvestment plan and Vermilion's equity based compensation programs. Shareholders' capital increased by $334.3 million as a result of the issuance of those shares.

As at March 10, 2011 there were 89,177,604 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.

RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

Risk and Uncertainties

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

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

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

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

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

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

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

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

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

Corrib Project
Vermilion is exposed to uncertainties associated with the timing of first gas resulting from the permitting process for a section of the onshore pipeline relating to the Corrib project. The ultimate timing of first gas impacts the final payment due to the vendor and is the main determinant as to when Vermilion will begin to realize its investment in the project.

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

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

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

Risk Management

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

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

When executing its commodity price risk management programs, Vermilion uses financial instruments encompassing over-the-counter financial structures as well as fixed/collar structures to economically hedge a part of its physical natural gas and oil sales. Vermilion has strict controls and guidelines in relation to these activities and contracts only with counter parties that have high credit ratings. For additional information associated with Vermilion's use of financial instruments, please see note 18 of Vermilion's consolidated financial statements for the years ended December 31, 2010 and 2009.

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.

SENSITIVITIES

Crude oil and natural gas prices may change significantly because of factors Vermilion cannot control. The following table provides a summary of estimated sensitivities to price fluctuations for pro-forma production levels and expenses for the year ended December 31, 2010.

	Change in Cash Available for Dividends Per Share	Change in Cash Available for Dividends
Change in crude oil price by US $1.00/bbl	$ 0.07	$ 6.6 million
Change in natural gas price by $0.10/mcf	$ 0.02	$ 1.4 million
Change in interest rate by one point	$ 0.05	$ 4.9 million
Change in Cdn/US foreign exchange rate by one point	$ 0.04	$ 4.0 million
Change in Cdn/Euro foreign exchange rate by one point	$ -	$ 0.1 million

OFF BALANCE SHEET ARRANGEMENTS

Vermilion has certain lease agreements that are entered into in the normal course of operations. All leases are operating leases and accordingly no asset or liability value has been assigned in the balance sheet as of December 31, 2010.

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.

ENVIRONMENT, HEALTH AND SAFETY

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

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

In 2010, Vermilion remained committed to the principles of the Environment, Health and Safety Stewardship Program set out by the Canadian Association of Petroleum Producers. This voluntary initiative promotes continual improvement in the areas of environment, health and safety performance, supplemented by progress reports to stakeholders.

Vermilion continued its commitment to reduce impacts to land, water and air, as policies and procedures demonstrating leadership in these areas, were maintained and further developed in 2010. Examples of accomplishments during the year included:

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

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") TRANSITION

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 on its IFRS 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 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.

The following discussion provides additional information on Vermilion's IFRS conversion. The Company cannot guarantee that this information will not change before its first IFRS financial statements are issued.

Opening Balance Sheet under IFRS
The following table summarizes Vermilion's consolidated balance sheet as at January 1, 2010 under Canadian GAAP and the adjustments required to conform with IFRS. These figures are unaudited and subject to change.

($M)	Canadian GAAP January 1, 2010	IFRS Adjustments	IFRS January 1, 2010
ASSETS			
Current	$ 256,886	$ -	$ 256,886
Non-current	1,827,790	17,855	1,845,645
	$ 2,084,676	$ 17,855	$ 2,102,531
LIABILITIES			
Current	$ 217,563	$ 4,089	$ 221,652
Non-current (includes non-controlling interest)	827,823	283,576	1,111,399
SHAREHOLDERS' EQUITY	1,039,290	(269,810)	769,480
	$ 2,084,676	$ 17,855	$ 2,102,531

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. The effect of the change is a decrease in depletion expense of approximately 20% to 25%.

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 whereas under Canadian GAAP, Vermilion presents PRRT as a royalty. Vermilion will also be required to record deferred taxes related to PRRT.

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 $117.2 million.

Equity Based Compensation
Vermilion believes that, under IFRS, 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 and subsequent changes in Vermilion's share price will not impact total compensation expense recognized.

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. At present, it is unclear if IFRS permits the inclusion of an adjustment for credit risk as is required under Canadian GAAP. If the asset retirement obligations are measured using a risk-free discount rate excluding an adjustment for credit risk, the impact would be an increase in the liability and a decrease to retained earnings of $137.6 million. The summarized opening balance sheet presented reflects the use of a risk-free rate that excludes credit risk.

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.

CORPORATE GOVERNANCE

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

We comply with the objectives and guidelines relating to corporate governance adopted by the Canadian Securities Administrators and the Toronto Stock Exchange. In addition, the Board monitors and considers the implementation of corporate governance standards proposed by various regulatory and non-regulatory authorities in Canada. A full examination of our corporate governance policies will be provided in our Management Proxy Circular, which will be filed on SEDAR (www.sedar.com) and mailed to all shareholders on April 8, 2011.

DISCLOSURE CONTROLS AND PROCEDURES

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

As of December 31, 2010, Vermilion has evaluated the effectiveness of the design and operation of Vermilion's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded and certified that Vermilion's disclosure controls and procedures are effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has assessed the effectiveness of Vermilion's internal control over financial reporting as defined in Rule 13a-15 under the US Securities Exchange Act of 1934 and as defined in Canada by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Management concluded that Vermilion's internal control over financial reporting was effective as of December 31, 2010. The effectiveness of Vermilion's internal control over financial reporting as of December 31, 2010 has been audited by Deloitte & Touche LLP, as reflected in their report for 2010 as filed with the US Securities and Exchange Commission. No changes were made to Vermilion's internal control over financial reporting during the year ending December 31, 2010, that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Corporate Information

DIRECTORS

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

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

Lorenzo Donadeo
Calgary, Alberta

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

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

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

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

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

ANNUAL GENERAL MEETING

May 6, 2011 at 10:00 a.m.
The Ballroom
Metropolitan Centre
333 – 4th Avenue S.W.
Calgary, Alberta

OFFICERS AND KEY PERSONNEL

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

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

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

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

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
Toronto Stock Exchange
Symbol: VET
US OTC
Symbol: VEMTF

INVESTOR RELATIONS CONTACT
Paul L. Beique, Vice President Capital Markets
Dean Morrison, Director Investor Relations
403.269.4884 TEL
403.476.8100 FAX
1.866.895.8101 TOLL FREE
investor_relations@vermilionenergy.com

3500, 520 – 3rd Avenue S.W.
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403.269.4884 tel | 403.476.8100 fax | 866.895.8101 IR Toll Free
www.vermilionenergy.com | investor_relations@vermilionenergy.com



EXHIBIT 99.3

VERMILION ENERGY INC.

2010 AUDITED ANNUAL FINANCIAL STATEMENTS



DISCLAIMER

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

- capital expenditures;
- business strategy and objectives;
- reserve quantities and the discounted present value of future net cash flows from such reserves;
- net 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;
- Vermilion's additional` future payment in connection with the Corrib acquisition;
- the timing of regulatory proceedings and approvals;
- the timing of first commercial gas from the Corrib field;
- estimate of Vermilion's share of the expected gas rates from the Corrib field; and

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;
- currency, exchange 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 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 REPORT TO SHAREHOLDERS

Management's Responsibility for Financial Statements

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

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

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

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

Management's Report on Internal Control Over Financial Reporting

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

A company's internal control system is designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the company's assets are appropriately accounted for and adequately safeguarded. Based on this evaluation, management concluded that Vermilion's system of internal control over financial reporting was effective as of December 31, 2010.

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

("Lorenzo Donadeo")

Lorenzo Donadeo
President & Chief Executive Officer
March 10, 2011

("Curtis W. Hicks")

Curtis W. Hicks
Executive Vice President & Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

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

We have audited the accompanying consolidated financial statements of Vermilion Energy Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of earnings, comprehensive income and retained earnings, and cash flows for the years then ended and the notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Vermilion Energy Inc. and subsidiaries as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Other matter

On March 10, 2011, we reported separately to the Shareholders of Vermilion Energy Inc. on our audits, conducted in accordance with Canadian generally accepted auditing standards, of the consolidated financial statements for the same periods, prepared in accordance with Canadian generally accepted accounting principles, but which excluded Note 21 Differences Between Canadian and United States of America Generally Accepted Accounting Principles.

("Deloitte & Touche LLP")

Independent Registered Chartered Accountants
Calgary, Canada
March 10, 2011

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

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

We have audited the internal control over financial reporting of Vermilion Energy Inc. and subsidiaries (the "Company") as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as at and for the year ended December 31, 2010 and our report dated March 10, 2011 expressed an unqualified opinion on those financial statements.

("Deloitte & Touche LLP")

Independent Registered Chartered Accountants
Calgary, Canada
March 10, 2011

CONSOLIDATED BALANCE SHEETS
DECEMBER 31
(THOUSANDS OF CANADIAN DOLLARS)

	2010	2009
ASSETS		
Current		
Cash and cash equivalents (Note 16)	**$ 145,623**	$ 99,066
Short-term investments	**15,132**	15,895
Accounts receivable	**147,329**	117,051
Crude oil inventory	**10,707**	5,235
Derivative instruments (Note 12)	**10,249**	8,217
Prepaid expenses and other	**11,157**	11,422
Future income taxes (Note 7)	**2,902**	-
	343,099	256,886
Derivative instruments (Note 12)	**942**	7,896
Future income taxes (Note 7)	**151,477**	119,714
Long-term investments	**3,108**	4,342
Goodwill (Note 9)	**51,589**	19,840
Reclamation fund (Note 5)	**-**	69,003
Capital assets (Note 4)	**2,031,501**	1,606,995
	$ 2,581,716	$ 2,084,676
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 253,086**	$ 197,633
Dividends or distributions payable	**16,910**	15,109
Derivative instruments (Note 12)	**12,143**	1,772
Income taxes payable	**58,795**	2,366
Future income taxes (Note 7)	**-**	683
	340,934	217,563
Derivative instruments (Note 12)	**1,767**	-
Long-term debt (Note 6)	**302,558**	159,723
Amount due pursuant to acquisition (Note 3)	**114,349**	111,402
Asset retirement obligations (Note 5)	**274,560**	237,110
Future income taxes (Note 7)	**246,982**	218,764
	1,281,150	944,562
Non-controlling interest - exchangeable shares (Note 9)	**-**	100,824
SHAREHOLDERS' OR UNITHOLDERS' EQUITY		
Shareholders' capital (Note 8)	**1,045,930**	-
Unitholders' capital (Note 8)	**-**	711,667
Contributed surplus (Note 8)	**39,841**	30,413
Retained earnings	**214,795**	297,210
	1,300,566	1,039,290
	$ 2,581,716	$ 2,084,676

APPROVED BY THE BOARD

("W. Kenneth Davidson") *("Lorenzo Donadeo")*

W. Kenneth Davidson, Director Lorenzo Donadeo, Director

CONSOLIDATED STATEMENTS OF EARNINGS, COMPREHENSIVE INCOME AND RETAINED EARNINGS
YEARS ENDED DECEMBER 31
(THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE OR UNIT AND PER SHARE OR UNIT AMOUNTS)

	2010	2009
REVENUE		
Petroleum and natural gas revenue	**$ 727,805**	$ 639,751
Royalties	**(83,509)**	(97,632)
	644,296	542,119
EXPENSES AND OTHER EXPENSE (INCOME)		
Operating	**144,595**	139,606
Transportation	**26,698**	18,939
Equity based compensation (Note 10)	**28,170**	18,196
Loss (gain) on derivative instruments (Note 12)	**3,906**	(4,526)
Interest	**13,370**	13,268
General and administration	**42,842**	31,192
Foreign exchange (gain)	**(26,132)**	(39,894)
Other expense (income)	**2,469**	(8,021)
Depletion, depreciation and accretion	**271,556**	248,726
	507,474	417,486
EARNINGS BEFORE INCOME TAXES AND OTHER ITEMS	**136,822**	124,633
INCOME TAXES (NOTE 7)		
Future	**(55,383)**	(30,963)
Current	**72,701**	29,429
	17,318	(1,534)
OTHER ITEMS		
Non-controlling interest - exchangeable shares (Note 9)	**8,241**	17,977
(Gain) related to equity method investment (Note 3)	**-**	(77,308)
	8,241	(59,331)
NET EARNINGS AND COMPREHENSIVE INCOME	**111,263**	185,498
Retained earnings, beginning of year	**297,210**	280,959
Distributions declared (Note 8)	**(122,236)**	(166,385)
Dividends declared (Note 8)	**(67,508)**	-
Equity-settled distributions on vested equity based awards (Note 8)	**(3,934)**	(2,862)
RETAINED EARNINGS, END OF YEAR	**$ 214,795**	$ 297,210
NET EARNINGS PER SHARE OR UNIT (NOTE 11)		
Basic	**$ 1.34**	$ 2.56
Diluted	**$ 1.32**	$ 2.53
WEIGHTED AVERAGE SHARES OR UNITS OUTSTANDING (NOTE 11)		
Basic	**83,155,116**	72,405,606
Diluted	**84,497,279**	80,569,607

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31
(THOUSANDS OF CANADIAN DOLLARS)

	2010	2009
OPERATING		
Net earnings	**$ 111,263**	$ 185,498
Adjustments:		
Depletion, depreciation and accretion	**271,556**	248,726
Change in unrealized gains and losses and accruals relating to derivative contracts (Note 12)	**17,060**	863
Equity based compensation	**28,170**	18,196
(Gain) related to equity method investment	**-**	(77,308)
Unrealized foreign exchange (gain)	**(20,509)**	(40,374)
Non-controlling interest - exchangeable shares	**8,241**	17,977
Change in unrealized gains and losses and accruals included in other expense (income) relating to investments	**3,089**	(8,052)
Proceeds from held for trading investments	**-**	2,674
Future income taxes	**(55,383)**	(30,963)
	363,487	317,237
Asset retirement obligations settled (Note 5)	**(6,861)**	(10,139)
Changes in non-cash operating working capital (Note 13)	**64,656**	(76,782)
Cash flows from operating activities	**421,282**	230,316
INVESTING		
Drilling and development of petroleum and natural gas properties	**(432,182)**	(194,666)
Acquisition of petroleum and natural gas properties	**(6,655)**	(159,536)
Proceeds from (purchase of) short-term investments	**64,889**	(6,404)
Long-term investment (Note 3)	**-**	136,479
Withdrawals from the reclamation fund (Note 5)	**812**	-
Changes in non-cash investing working capital (Note 13)	**14,073**	(1,631)
Cash flows (used in) investing activities	**(359,063)**	(225,758)
FINANCING		
Increase (decrease) in long-term debt	**142,700**	(37,053)
Issue of trust units for cash (Note 8)	**-**	240,178
Issue of common shares or trust units pursuant to the dividend or distribution reinvestment plans	**40,824**	-
Cash distributions	**(121,966)**	(164,616)
Cash dividends	**(65,977)**	-
Cash flows (used in) from financing activities	**(4,419)**	38,509
Foreign exchange (loss) on cash held in foreign currencies	**(11,243)**	(11,232)
Net change in cash and cash equivalents	**46,557**	31,835
Cash and cash equivalents, beginning of year	**99,066**	67,231
Cash and cash equivalents, end of year (Note 16)	**$ 145,623**	$ 99,066
Supplementary information - cash payments		
Interest paid	**$ 13,585**	$ 12,301
Income taxes paid	**$ 16,272**	$ 84,686

1. BASIS OF PRESENTATION AND CORPORATE CONVERSION

Vermilion Energy Inc. ("Vermilion" or the "Company") 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 that 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 (see Note 9). There were no exchangeable shares outstanding following the 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 incurred as general and administration expense.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation
The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP" or "GAAP") and include the accounts of Vermilion and its subsidiaries, all of which are wholly owned, on a consolidated basis. Intercompany account balances and transactions are eliminated upon consolidation.

Vermilion currently has no variable interest entities of which it is the primary beneficiary and accordingly the consolidated financial statements do not include the accounts of any such entities.

Petroleum and Natural Gas Operations
Vermilion uses the full-cost method of accounting for petroleum and natural gas operations and capitalizes all exploration and development costs on a country-by-country basis. These costs include land acquisition, geological and geophysical costs, drilling on producing and non-producing properties, overhead costs related to exploration and development and other carrying charges on unproven properties. Proceeds of disposition are applied against the cost pools with no gain or loss recognized except where the disposition results in a 20% or greater change in the rate of depletion and depreciation.

Amortization of these costs plus future development costs to develop proved reserves is calculated on a country-by-country basis using the unit-of-production method based on estimated proved reserves, before royalties, as determined by independent engineers. The cost of significant unevaluated properties is excluded from the depletion and depreciation base. For the purpose of the depletion and depreciation 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.

At least annually, the carrying value of Vermilion's petroleum and natural gas properties is compared to the sum of the undiscounted cash flows expected to result from Vermilion's proved reserves on a country-by-country basis (the "ceiling test"). If the carrying value is not fully recoverable, the amount of impairment is measured by comparing the carrying amounts of the assets to the estimated net present value of future cash flows from proved plus probable reserves. This calculation incorporates risks and uncertainties in the expected future cash flows which are discounted using a risk-free rate. Any excess carrying value above the net present value of the future cash flows would be recorded as a permanent impairment which is charged to earnings.

A significant portion of the exploration, development and production activities of Vermilion are conducted jointly with others and, accordingly, the consolidated financial statements reflect only Vermilion's proportionate interest in such activities.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vermilion recognizes the estimated liability associated with an asset retirement obligation in the consolidated financial statements at the time the liability is incurred. The estimated fair 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. The capitalized amount is depleted using the unit-of-production method over estimated proved reserves. The liability amount is increased each reporting period due to the passage of time and this accretion is charged to earnings in the period. The asset retirement obligation can also increase or decrease due to changes in the estimated timing of cash flows or changes in the original estimated undiscounted costs. Actual costs incurred upon settlement of the asset retirement obligation are charged against the asset retirement obligation to the extent of the liability recorded.

The amounts recorded for depletion and depreciation of property, plant and equipment are based on estimates. The ceiling test for the recoverability of Vermilion's petroleum and natural gas properties is based on the cash flows expected to result from Vermilion's reserves. The asset retirement obligation is based on estimated liabilities related to legal obligations associated with future retirement of property, plant and equipment. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements from changes in such estimates in future years could be significant.

Cash and Cash Equivalents
Cash and cash equivalents include monies on deposit and guaranteed investments that have an original maturity date of not more than 90 days.

Short-Term Investments
Short-term investments are comprised of guaranteed investment certificates with an original maturity date of greater than 90 days.

Furniture and Equipment
Furniture and equipment are recorded at cost and are amortized on a declining-balance basis at rates of 20% to 50% per year.

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.

In 2009, the Trust's investment in Verenex Energy Inc. ("Verenex") was subject to equity method accounting. On December 21, 2009, the Trust sold its investment in Verenex (see Note 3) and accordingly, as at December 31, 2010 and 2009, the Trust did not have any investments which were subject to equity method accounting.

Goodwill
Goodwill is tested for impairment at least annually by comparing the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds the fair value, an impairment loss is recognized for the excess.

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 Canadian natural gas production, legal title transfer occurs at the intersection of major pipelines (referred to as the "Hub") whereas the majority of Vermilion's Canadian oil production is sold at the well head. In Australia, oil is sold at the Wandoo B Platform, in the Netherlands natural gas is sold at the plant gate and in France oil is sold when delivered to the pipeline or when delivered to the refinery via tanker.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments
Cash and cash equivalents and short-term investments 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 current period.

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 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 subsequently are 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 or equity method accounting have been classified as held for trading and are measured at fair value. Accordingly, gains and losses are reflected in net income 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 (income) in the consolidated statements of earnings.

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 compensation 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. Equity based compensation expense is recognized in earnings over the vesting period of the awards with a corresponding adjustment to contributed surplus.

Upon vesting, the amount previously recognized in contributed surplus is reclassified to shareholders' capital. Vermilion has not incorporated an estimated forfeiture rate for awards that will not vest and instead, Vermilion accounts for forfeitures as they occur.

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 are calculated using the treasury stock method to determine the dilutive effect of equity based compensation plans and outstanding exchangeable shares. 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 compensation awards outstanding are included in the calculation of diluted net earnings per share or unit based on estimated performance factors.

Foreign Currency Translation
The financial position and results of foreign subsidiaries, all of which are considered to be integrated, are translated on the following basis:

- Monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates;
- Non-monetary assets, liabilities and related depreciation and depletion expense are translated at historical rates; and
- Sales, other revenues, royalties and all other expenses are translated at an appropriately weighted average exchange rate.

Any resulting foreign exchange gains and losses are included in earnings.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Future income taxes are calculated using the liability method whereby income tax liabilities and assets are recognized for the estimated tax consequences attributable to temporary differences between the amounts reported in the consolidated financial statements of Vermilion and their 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 future income tax liabilities and assets is recognized in income 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.

Exchangeable Shares - Non-controlling Interest

The exchangeable shares issued pursuant to the Plan of Arrangement were initially recorded at their pro-rata percentage of the carrying value of the equity of Vermilion Resources Ltd. When the exchangeable shares were converted into shares, the conversion was accounted for as an acquisition of the non-controlling interest at fair value. Upon conversion of the exchangeable shares, the fair value of the shares issued was recorded in shareholders' or unitholders' capital, and the difference between the carrying value of the non-controlling interest and the fair value of the shares was recorded as capital assets or goodwill, as appropriate.

Capitalized Interest

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of that asset.

3. ACQUISITIONS AND DISPOSITIONS

a) Corrib 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 for cash consideration of $136.8 million. Pursuant to the terms of the acquisition agreement, Vermilion will make an additional future payment to the vendor, the amount of which will be between US $135 million and US $300 million depending on the date when first commercial gas is achieved. Management expects that first commercial gas would be achieved at the end of 2012 and that the resulting payment to the vendor will be US $135 million.

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 borrowing transaction associated with the purchase of these assets. The cost of this acquisition, which is not a business combination for accounting purposes, was allocated as follows:

Capital assets	$	228,898
Future income tax assets		86,074
Asset retirement obligation		(9,788)
Working capital		(57,507)
Total consideration	$	247,677
Comprised of:		
Cash	$	136,832
Present value of estimated future payment due to vendor		110,845
Total consideration	$	247,677

3. ACQUISITIONS AND DISPOSITIONS (Continued)

b) Disposition of Verenex and Related Party Transaction

On December 21, 2009, Vermilion completed the previously announced sale of its 18.8 million shares of Verenex, representing Vermilion's entire investment in that entity, at $7.29 per share resulting in net proceeds of $136.5 million. The gain associated with this sale transaction was $80.5 million and is reflected as a gain related to equity method investment on the consolidated statement of earnings. Also included within the gain related to equity method investment on the consolidated statement of earnings is the equity method loss of $3.2 million for the period prior to the sale transaction.

During the first quarter of 2009, Vermilion acquired a gross overriding royalty from Verenex for cash consideration of $4.5 million. At the time, Vermilion owned 42% of Verenex. The transaction was accounted for at the exchange amount and is recorded as acquisition of petroleum and natural gas properties on the consolidated statement of cash flows.

4. CAPITAL ASSETS

2010	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 3,593,831	$ 1,576,903	$ 2,016,928
Furniture and equipment	25,840	11,267	14,573
	$ 3,619,671	$ 1,588,170	$ 2,031,501

2009	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 2,929,311	$ 1,325,568	$ 1,603,743
Furniture and equipment	12,450	9,198	3,252
	$ 2,941,761	$ 1,334,766	$ 1,606,995

As at December 31, 2010, Vermilion excluded $101.5 million (2009 - $20.4 million) of undeveloped properties from the depletion and depreciation calculation. During the year ended December 31, 2010, Vermilion capitalized $1.3 million (2009 - $4.2 million) of overhead costs related to exploration and development activities and $8.8 million (2009 - $3.2 million) of interest expense associated with the unwinding of the discount on the amount due to the vendor pursuant to the Corrib acquisition (see Note 3). The Company recorded an increase in capital assets of $189.9 million in connection with the corporate conversion and the associated acquisition of the non-controlling interest in 2010 (see Notes 1 and 9).

Vermilion performed ceiling tests at December 31, 2010 and 2009 to assess whether the carrying value of petroleum and natural gas properties and equipment is recoverable. Based on the calculations, the undiscounted future cash flows from Vermilion's proved reserves exceeded the carrying values of Vermilion's petroleum and natural gas properties and equipment in each cost centre at December 31, 2010 and 2009 and therefore, the carrying values are considered recoverable.

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. ASSET RETIREMENT OBLIGATIONS AND RECLAMATION FUND

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 $274.6 million as at December 31, 2010 (2009 - $237.1 million) based on a total undiscounted future liability after inflation adjustment of $967.5 million (2009 - $857.2 million). These payments are expected to be made over the next 45 years with most of the costs being incurred between 2011 and 2041. Vermilion used a credit adjusted risk free rate of 8% and inflation rates between 1.4% and 2.6% to calculate the present value of the asset retirement obligations.

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

	2010	2009
Carrying amount, beginning of year	**$ 237,110**	$ 265,101
Increase in liabilities from drilling activities or acquisitions	**885**	10,173
Liabilities settled	**(6,861)**	(10,139)
Changes in estimates	**36,301**	(24,456)
Accretion expense	**18,152**	20,255
Foreign exchange	**(11,027)**	(23,824)
Carrying amount, end of year	**$ 274,560**	$ 237,110

During the years ended December 31, 2010 and 2009, Vermilion reviewed the estimates underlying its asset retirement obligations. The resulting adjustments are categorized as changes in estimates in the table above. The change in estimate recorded in the current year resulted from the availability of better data associated with the abandonment obligations for Vermilion's Netherlands operations.

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. During 2010, Vermilion withdrew $0.8 million from the reclamation fund before it was liquidated (2009 - $nil).

As at December 31, 2009 Vermilion's reclamation fund investments consisted of:

	2009
Cash and short term investments, at fair value	$ 22,028
Equity and debt securities, at fair value	46,975
	$ 69,003

6. LONG-TERM DEBT

As at December 31, 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 do not extend the term of the revolving facility, the amounts outstanding become repayable 24 months after the expiry 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 other certain non-cash items of not greater than 3.0.

The amount available to Vermilion under this facility is reduced by outstanding letters of credit associated with Vermilion's operations totalling $1.9 million as at December 31, 2010 (2009 - $85.1 million).

7. INCOME TAXES

The net future income tax liability at December 31, 2010 and 2009 is comprised of the following:

		2010		2009
Future income tax liabilities:				
Capital assets	**$**	**(243,337)**	$	(223,918)
Derivative contracts		**-**		(4,346)
Partnership income deferral		**(6,427)**		-
Asset retirement obligations		**(36,810)**		(41,602)
Basis difference of investments		**(777)**		(1,090)
Unrealized foreign exchange		**(19,973)**		(11,305)
Future income tax assets:				
Derivative contracts		**708**		-
Capital assets		**57,654**		67,403
Non-capital losses		**112,442**		66,145
Partnership loss deferral		**-**		12,449
Other		**1,894**		1,298
Share issue costs		**2,259**		2,011
Asset retirement obligations		**39,764**		33,222
Net future income tax (liability)	**$**	**(92,603)**	$	(99,733)
Comprised of:				
Current future income tax asset	**$**	**2,902**	$	-
Non-current future income tax asset		**151,477**		119,714
Current future income tax liability		**-**		(683)
Non-current future income tax liability		**(246,982)**		(218,764)
Net future income tax (liability)	**$**	**(92,603)**	$	(99,733)

7. INCOME TAXES (Continued)

The provision for income tax differs from the amount that would have been expected if the reported earnings had been subject only to the statutory Canadian income tax rate of 28.00% (2009 – 29.00%), as follows:

		2010		2009
Earnings before income taxes and non-controlling interest	**$**	**136,822**	$	201,941
Canadian corporate tax rate		**28.00%**		29.00%
Expected tax expense		**38,310**		58,563
Increase (decrease) in taxes resulting from:				
Income attributable to Unitholders prior to corporate conversion (Note 1)		**(34,226)**		(48,252)
Tax incentive programs		**(1,931)**		(5,645)
Foreign tax rate differentials [1]		**4,772**		4,390
Equity based compensation expense		**7,888**		5,277
Amended returns and pool estimate variances		**2,370**		137
Foreign exchange		**(9,704)**		(11,624)
Statutory rate changes and differences in reconciliation rate from the expected rates at reversal for non-capital losses recognized during the period		**4,796**		791
Other		**4,300**		1,526
Adjustment for capitalized interest		**2,197**		800
Adjustment to provisions for tax positions taken		**(1,454)**		3,340
Non-taxable portion of capital gains		**-**		(10,837)
Provision for income taxes	**$**	**17,318**	$	(1,534)

[1] The corporate tax rate is 34.4% in France, 43.2% in the Netherlands, 30.0% in Australia and 25.0% in Ireland.

8. SHAREHOLDERS' CAPITAL, UNITHOLDERS' CAPITAL AND CONTRIBUTED SURPLUS

As a result of the conversion from an income trust to a corporation on September 1, 2010 (see Note 1), all of the outstanding units of the Trust were exchanged on a one-for-one basis for common shares of Vermilion. Exchangeable shares of Vermilion Resources Ltd. were converted to common shares of Vermilion at the prevailing exchange ratio of 1.89344 (see Note 9).

Vermilion is authorized to issue an unlimited number of common shares.

Unitholders' Capital	**Number of Units**		**Amount**
Balance as at December 31, 2008	70,212,769	$	444,353
Issued on conversion of exchangeable shares (Note 9)	132,569		4,048
Unit rights exercised and issuance of units on vesting of trust unit award plan grants	945,982		2,817
Transfer from contributed surplus for unit based awards	-		16,846
Units issued for bonus plan	23,790		635
Unit-settled distributions on vested unit based awards	116,918		2,862
Unit issuance	8,091,000		240,106
Balance as at December 31, 2009	79,523,028	$	711,667
Distribution reinvestment plan	718,424		23,185
Issued on conversion of exchangeable shares (Note 9)	4,547		151
Issuance of units on vesting of trust unit award plan grants	555,459		17,733
Trust units issued for bonus plan	28,624		1,009
Unit-settled distributions on vested unit based awards	113,527		3,934
Trust units exchanged pursuant to corporate conversion	(80,943,609)		(757,679)
Balance as at August 31, 2010	-	$	-

8. SHAREHOLDERS' CAPITAL, UNITHOLDERS' CAPITAL AND CONTRIBUTED SURPLUS (Continued)

Shareholders' Capital	Number of Shares		Amount
Balance as at August 31, 2010	-	$	-
Issuance of common shares for trust units pursuant to corporate conversion	80,943,609		757,679
Dividend reinvestment plan	468,087		17,639
Issuance of common shares for exchangeable shares pursuant to corporate conversion (Note 9)	7,586,546		270,612
Balance as at December 31, 2010	88,998,242	$	1,045,930

		2010		2009
Contributed Surplus				
Opening balance	**$**	**30,413**	$	29,698
Equity based compensation expense (excluding bonus plan)		**27,161**		17,561
Transfer to shareholders' capital for equity based awards		**(17,733)**		(16,846)
Ending balance	**$**	**39,841**	$	30,413

On October 30, 2009, Vermilion completed the sale of 7,282,000 trust units at $30.90 per trust unit which resulted in net proceeds of $213.8 million after deducting the underwriters' fee. The underwriters subsequently exercised the over-allotment option associated with the offering resulting in the issuance of an additional 809,000 trust units for $23.8 million in net proceeds.

Vermilion's dividend reinvestment plan allows eligible shareholders to purchase additional shares at a 5% discount to market by reinvesting their cash dividends. The plan had previously been suspended in May 2008 and was reinstated by Vermilion effective January 15, 2010.

The total of cash distributions and dividends declared for the year ended December 31, 2010 was $189.7 million (2009 - $166.4 million).

Dividends are determined and declared by the Board of Directors after considering the Company's earnings as well as current and anticipated financial requirements. Dividends are subject to solvency tests imposed by the Business Corporations Act (Alberta) and are paid monthly.

9. 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 consisted of the book value of the exchangeable shares upon issuance plus the accumulated earnings attributable to the non-controlling interest. The net earnings attributable to the non-controlling interest on the consolidated statement of earnings represented the share of net earnings attributable to the non-controlling interest based on the trust units issuable for exchangeable shares in proportion to total trust units issued and issuable at each period end.

As a result of the corporate conversion (see 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. There were no exchangeable shares outstanding following the conversion.

The conversion of exchangeable shares was accounted for 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

9. NON-CONTROLLING INTEREST – EXCHANGEABLE SHARES (Continued)

The following table summarizes the changes in the outstanding exchangeable share balance:

	Dec 31, 2010	Dec 31, 2009
Exchangeable Shares		
Opening number of exchangeable shares	**4,009,253**	4,085,605
Exchanged for trust units (Note 8)	**(2,500)**	(76,352)
Exchanged for common shares pursuant to corporate conversion (Notes 1 and 8)	**(4,006,753)**	-
Ending balance	**-**	4,009,253
Ending exchange ratio	**-**	1.80065
Units issuable upon conversion	**-**	7,219,261

The following table summarizes the changes in the non-controlling interest as presented on the consolidated balance sheets:

	Dec 31, 2010	Dec 31, 2009
Non-controlling interest, beginning of year	**$ 100,824**	$ 84,523
Current year net earnings attributable to the non-controlling interest	**8,241**	17,977
Reduction of book value for conversion to trust units	**(64)**	(1,676)
Reduction of book value for conversion to common shares	**(109,001)**	-
Non-controlling interest, end of year	**$ -**	$ 100,824

10. EQUITY BASED COMPENSATION PLANS

Vermilion Incentive Plan

The Vermilion Incentive Plan (the "VIP Plan"), formerly the Trust Unit Award Plan (the "TAP Plan") is the Company's long-term incentive plan for directors, officers, employees and consultants under which grantees receive awards representing unvested shares of Vermilion. At vesting, the ultimate number of unrestricted shares received by the grantee 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.

The following table summarizes information about the awards granted 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	2010	2009
Opening balance	**1,417,314**	1,208,255
Granted	**845,199**	663,113
Vested	**(447,714)**	(382,239)
Forfeited	**(131,023)**	(71,815)
Closing balance	**1,683,776**	1,417,314

Compensation expense of $27.2 million was recorded during the year ended December 31, 2010 (2009 - $17.6 million) related to the VIP and TAP Plans.

10. EQUITY BASED COMPENSATION PLANS (Continued)

Phantom Award Incentive Plan

For certain employees that are not eligible to participate in the VIP Plan, the Company's Phantom Award Incentive Plan provides for cash payments based on the market value of a share. The cash consideration paid is adjusted to reflect 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 in the same manner as that applied to the VIP Plan.

Compensation expense recognized is based on the closing market price of a share adjusted to reflect the Company's best estimate of the performance factors which will ultimately be achieved. The resulting liability is remeasured at each reporting date. The total expense is amortized over the relevant vesting periods and the amount payable is recorded as a liability until settlement.

Compensation expense for this cash settled plan of $3.4 million was recorded during the year ended December 31, 2010 (2009 - $1.2 million).

11. PER SHARE OR UNIT AMOUNTS

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

		2010		**2009**
Net earnings	**$**	**111,263**	$	185,498
Non-controlling interest - exchangeable shares		**-**		17,977
Net earnings for diluted net earnings per share or unit calculation	**$**	**111,263**	$	203,475
Basic weighted average shares or units outstanding		**83,155,116**		72,405,606
Dilutive impact of units issuable on conversion of exchangeable shares		**-**		7,279,431
Dilutive impact of equity based award plans		**1,342,163**		884,570
Diluted weighted average shares or units outstanding		**84,497,279**		80,569,607

Basic net earnings per share or unit has been calculated based on net earnings divided by the basic weighted average shares or units outstanding. All outstanding potential shares or units related to incentive plans were dilutive for the years ended December 31, 2010 and 2009 and therefore have been included in the calculations of diluted earnings per share or unit for both periods. Outstanding potential units related to the exchangeable shares were only dilutive for the year ended December 31, 2009 therefore have only been included in the calculation of diluted earnings per unit in that period.

When outstanding share or units related to exchangeable shares are included in the diluted earnings per share or unit calculation, earnings attributable to the non-controlling interest related to those exchangeable shares are added back to net earnings in the calculation.

12. 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 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 not to 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 may enter 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 December 31, 2010.

Risk Management: Oil	**Funded Cost**	**bbls/d**	**US $/bbl**
Collar - WTI			
January 2011 to June 2011	US $1.00/bbl	2,400	$ 80.00 - $107.60
January 2011 to June 2011	US $1.00/bbl	2,400	$ 75.00 - $ 97.85
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
Collar - BRENT			
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
Call Spread - BRENT			
January 2011 to December 2011	US $6.08/bbl[1]	960	$ 65.00 - $ 85.00
January 2011 to December 2011	US $5.15/bbl[1]	600	$ 65.00 - $ 85.00
Risk Management: Natural Gas	**Funded Cost**	**GJ/d**	**$/GJ**
SWAP - AECO			
January 2011 to October 2011	$0.00/GJ	700	$5.13
Risk Management: Foreign Exchange		**Notional Principal ($US) / Month**	**Fixed rate ($CDN / $US)**
US Dollar Forward Sale			
January 2011 to December 2011		$750,000	$1.07
January 2011 to December 2011		$750,000	$1.07

[1] The funded amounts for these instruments were paid in a prior period.

12. DERIVATIVE INSTRUMENTS (Continued)

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

		2010		2009
Fair value of contracts, beginning of year	$	**14,341**	$	15,204
Reversal of opening unrealized (gain) on contracts settled during the year		**(6,842)**		(11,959)
Realized gain on contracts settled during the year		**13,154**		5,389
Unrealized (loss) gain during the year on contracts outstanding at the end of the year		**(10,218)**		11,096
Net (receipt from) counterparties on contract settlements during the year		**(13,154)**		(5,389)
Fair value of contracts, end of year		**(2,719)**		14,341
Comprised of:				
Current derivative asset		**10,249**		8,217
Current derivative liability		**(12,143)**		(1,772)
Non-current derivative asset		**942**		7,896
Non-current derivative liability		**(1,767)**		-
Fair value of contracts, end of year	$	**(2,719)**	$	14,341

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

		2010		2009
Realized (gain) on contracts settled during the year	$	**(13,154)**	$	(5,389)
Reversal of opening unrealized gain on contracts settled during the year		**6,842**		11,959
Unrealized loss (gain) during the year on contracts outstanding at the end of the year		**10,218**		(11,096)
Loss (gain) on derivative instruments	$	**3,906**	$	(4,526)

13. CASH FLOW INFORMATION

The following details the changes in non-cash working capital:

		2010		2009
Accounts receivable	$	**(30,278)**	$	6,743
Crude oil inventory		**(5,472)**		6,932
Prepaid expenses and other		**400**		3,555
Accounts payable and accrued liabilities and income taxes payable		**111,882**		(96,790)
Foreign exchange		**2,197**		1,147
Changes in non-cash working capital		**78,729**		(78,413)
Changes in non-cash operating working capital	$	**64,656**	$	(76,782)
Changes in non-cash investing working capital		**14,073**		(1,631)
Changes in non-cash working capital	$	**78,729**	$	(78,413)

14. 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 petroleum and natural gas.

		2010		2009
Petroleum and natural gas revenue				
Canada	**$**	**185,241**	$	152,087
France		**249,031**		203,142
Netherlands		**73,789**		68,087
Australia		**219,744**		216,435
Ireland		**-**		-
	$	**727,805**	$	639,751
Net earnings (loss)				
Canada	**$**	**(54,394)**	$	25,635
France		**92,495**		69,497
Netherlands		**19,149**		21,319
Australia		**60,979**		73,380
Ireland		**(6,966)**		(4,333)
	$	**111,263**	$	185,498
Capital expenditures				
Canada	**$**	**242,900**	$	75,973
France		**54,965**		62,457
Netherlands		**11,017**		26,338
Australia		**51,457**		6,739
Ireland		**78,498**		182,695
	$	**438,837**	$	354,202
Total assets				
Canada	**$**	**906,407**	$	711,435
France		**743,119**		575,426
Netherlands		**190,473**		180,803
Australia		**293,691**		250,780
Ireland		**448,026**		366,232
	$	**2,581,716**	$	2,084,676

15. COMMITMENTS

Vermilion has the following future commitments associated with its operating leases as at December 31, 2010:

	2011	2012	2013	2014	2015	Thereafter	Total
Payments by period	$5,864	$6,845	$6,845	$6,845	$6,845	$45,521	$78,765

16. COMPONENTS OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2010 and December 31, 2009 was comprised solely of monies on deposit with banks.

17. CAPITAL DISCLOSURES

In managing capital, Vermilion reviews whether fund flows from operations, (a non-GAAP measure, defined 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 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 and 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:

		2010		2009
Long-term debt	**$**	**302,558**	$	159,723
Current liabilities		**340,934**		217,563
Current assets		**(343,099)**		(256,886)
Net debt [1]	**$**	**300,393**	$	120,400
Cash flows from operating activities	**$**	**421,282**	$	230,316
Changes in non-cash operating working capital		**(64,656)**		76,782
Asset retirement obligations settled		**6,861**		10,139
Fund flows from operations [2]	**$**	**363,487**	$	317,237
Ratio of net debt to fund flows from operations ([1] ÷ [2])		**0.8**		0.4

For 2010 and 2009, the ratio of net debt to fund flows from operations was 0.8 and 0.4, respectively. The 2009 year end figure of 0.4 reflects the sale of Verenex (see Note 3) and the equity offering which closed in the fourth quarter of 2009 (see Note 8). In 2010, as a result of capital expenditures associated with Canadian development activities and the Corrib project (see Note 3), the ratio of net debt to fund flows from operations increased but has remained within Vermilion's target range.

In relation to its long-term debt, Vermilion is subject to a debt to EBITDA ratio test (where debt is defined as long-term debt as presented on the consolidated balance sheet and EBITDA is defined as earnings before interest, taxes, depreciation, accretion and other certain non-cash items). During the periods covered by these consolidated financial statements, Vermilion continued to comply with this externally imposed capital requirement.

18. FINANCIAL INSTRUMENTS

The following table summarizes information relating to Vermilion's financial instruments as at December 31, 2010 and December 31, 2009:

Classification of Financial Instruments

Class of Financial Instruments	Location on Consolidated Balance Sheet	Accounting Designation	Related Income or Expense Account on Statement of Earnings	Carrying Amount and Fair Value of Asset (Liability) as at: Dec 31, 2010	Dec 31, 2009	Fair Value Measurement Hierarchy
Cash	Cash and cash equivalents	HFT-B	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	**$ 145,623**	$ 99,066	Level 1
Short-term investments	Short-term investments	HFT-A	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	**$ 15,132**	$ 15,895	Level 1
Receivables	Accounts receivable	LAR	Gains and losses on foreign exchange are included in foreign exchange loss (gain). Impairments are recognized as general and administration expense	**$ 147,329**	$ 117,051	Not applicable
Derivative assets	Derivative instruments	HFT-B	Loss (gain) on derivative instruments	**$ 11,191**	$ 16,113	Level 2
Derivative liabilities	Derivative instruments	HFT-B	Loss (gain) on derivative instruments	**$ (13,910)**	$ (1,772)	Level 2
Reclamation fund investments	Reclamation fund	HFT-A	Other income or expense	**$ -**	$ 69,003	Level 1
Portfolio investments	Long-term investments	HFT-A	Other income or expense	**$ 3,108**	$ 4,342	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)	**$ (269,996)**	$ (212,742)	Not applicable
Long-term debt	Long-term debt	OTH	Interest	**$ (302,558)**	$ (159,723)	Not applicable
Long-term debt	Amount due pursuant to acquisition	OTH	None	**$ (114,349)**	$ (111,402)	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 "Held for trading" are carried at fair value on the consolidated balance sheets with gains and losses associated with fair value adjustments recognized in net earnings.

HFT-B – Classified as "Held for trading" in accordance with Section 3855 of the CICA Handbook. 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 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.

18. 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 and reclamation fund investments are determined by reference to published price quotations in active markets. The carrying value of receivables and payables approximate their fair value due to their short maturities. The carrying value of long-term debt approximates its fair value due to the use of short-term borrowing instruments at market rates of interest. The amount due pursuant to acquisition was determined by calculating the expected value of the future payment due to the vendor based on management's best estimates associated with the timing of first commercial gas and discounting the resulting amount. The discount rate which would be used to present value this obligation as at December 31, 2010 would not differ significantly from the discount rate originally used.

The carrying value of amount due pursuant to acquisition is indicative of the fair value as the associated discount rate has remained stable.

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 it 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 December 31, 2010, Vermilion held portfolio investments in equity securities with a fair value of $3.1 million (2009 - $4.3 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 primarily comprised of short-term bankers acceptances that bear interest at market rates. 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.

18. FINANCIAL INSTRUMENTS (Continued)

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

Summarized Quantitative Data Associated with the Risks Arising from Financial Instruments

Credit risk:
As at December 31, 2010 Vermilion's maximum exposure to receivable credit risk was $158.5 million (2009 - $133.2 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 December 31, 2010 and December 31, 2009:

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
December 31, 2010	89,063	163,110	17,823	438,371
December 31, 2009	117,911	84,911	9,920	302,691

Vermilion's derivative financial liabilities 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 years ended December 31, 2010 and 2009 given changes in the relevant risk variables that Vermilion considers were reasonably possible at the balance sheet date. 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.

Year ended December 31, 2010:

Risk	Description of change in risk variable	Effect on net earnings before tax increase (decrease)
Currency risk – Euro to Canadian	**Increase** in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on December 31, 2010	$ (2,473)
	Decrease in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on December 31, 2010	$ 2,473
Currency risk – US$ to Canadian	**Increase** in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on December 31, 2010	$ 2,527
	Decrease in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on December 31, 2010	$ (2,527)
Currency risk – AUD$ to Canadian	**Increase** in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on December 31, 2010	$ 773
	Decrease in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on December 31, 2010	$ (773)
Commodity price risk	**Increase** in relevant oil reference price at December 31, 2010 by US$5.00/bbl within option pricing models used to determine the fair value of derivative positions	$ (11,440)
	Decrease in relevant oil reference price at December 31, 2010 by US$5.00/bbl within option pricing models used to determine the fair value of derivative positions	$ 9,950

18. FINANCIAL INSTRUMENTS (Continued)

Year ended December 31, 2009:

Risk	Description of change in risk variable	Effect on net earnings before tax increase (decrease)
Currency risk – Euro to Canadian	**Increase** in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on December 31, 2009	$ (3,283)
	Decrease in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on December 31, 2009	$ 3,283
Currency risk – US$ to Canadian	**Increase** in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on December 31, 2009	$ 1,495
	Decrease in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on December 31, 2009	$ (1,495)
Currency risk – AUD$ to Canadian	**Increase** in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on December 31, 2009	$ (1,190)
	Decrease in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on December 31, 2009	$ 1,190
Commodity price risk	**Increase** in relevant oil reference price at December 31, 2009 by US$5.00/bbl within option pricing models used to determine the fair value of derivative positions	$ 1,788
	Decrease in relevant oil reference price at December 31, 2009 by US$5.00/bbl within option pricing models used to determine the fair value of derivative positions	$ (2,264)

Reasonably possible changes in interest rates and natural gas prices would not have had a material impact on net earnings for the years ended December 31, 2010 and 2009.

19. SUBSEQUENT EVENTS

On February 10, 2011, Vermilion closed a private placement offering of $225 million of senior unsecured notes. 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. Concurrent with the issuance of the notes, the Company's credit facility was reduced from $675 million to $635 million.

20. ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

On February 13, 2008, the Accounting Standards Board ("AcSB") confirmed that the transition date to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be January 1, 2011 for publicly accountable enterprises such as Vermilion. Accordingly, all financial statements presented by Vermilion after that date will be prepared under IFRS.

21. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES OF AMERICA GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements of Vermilion have been prepared in accordance with Canadian GAAP which, in most respects, conforms to accounting principles generally accepted in the United States of America ("U.S. GAAP"). The significant differences, as they apply to Vermilion, are shown below.

The application of U.S. GAAP would have had the following effect on Vermilion's net earnings, comprehensive income and retained earnings:

		2010		2009
Net earnings and comprehensive income as reported under Canadian GAAP	**$**	**111,263**	$	185,498
Differences having the effect of increasing (decreasing) net earnings				
Equity based compensation (a)		**(9,457)**		(10,427)
Non-controlling interest adjustment (c)		**8,241**		17,977
Depletion, depreciation and accretion (c and d)		**(14,343)**		(284,736)
Equity method accounting adjustments (e)		**-**		(28,626)
Future income tax consequences of U.S. GAAP adjustments (g)		**485**		73,702
Net earnings (loss) and comprehensive income (loss) under U.S. GAAP		**96,189**		(46,612)
Deficit, beginning of year, under U.S. GAAP		**(2,110,550)**		(1,377,857)
Distributions declared (Canadian and U.S. GAAP)		**(122,236)**		(166,385)
Dividends declared (Canadian and U.S. GAAP)		**(67,508)**		-
Temporary equity adjustment to deficit (b)		**(239,288)**		(519,696)
Deficit, end of year, under U.S. GAAP	**$**	**(2,443,393)**	$	(2,110,550)
Net earnings (loss) per share or unit under U.S. GAAP				
Basic	**$**	**1.09**	$	(0.58)
Diluted	**$**	**1.07**	$	(0.58)
Weighted average shares or units outstanding (c)				
Basic		**88,213,105**		79,685,037
Diluted		**89,638,358**		79,685,037

The application of U.S. GAAP would have had the following effect on the consolidated balance sheets:

		2010 CDN GAAP		2010 U.S. GAAP		2009 CDN GAAP		2009 U.S. GAAP
ASSETS								
Current								
Cash and cash equivalents	**$**	**145,623**	**$**	**145,623**	$	99,066	$	99,066
Short-term investments		**15,132**		**15,132**		15,895		15,895
Accounts receivable		**147,329**		**147,329**		117,051		117,051
Crude oil inventory		**10,707**		**10,707**		5,235		5,235
Derivative instruments		**10,249**		**10,249**		8,217		8,217
Prepaid expenses and other		**11,157**		**11,157**		11,422		11,422
Future income taxes		**2,902**		**2,902**		-		-
		343,099		**343,099**		256,886		256,886
Derivative instruments		**942**		**942**		7,896		7,896
Future income taxes (g)		**151,477**		**334,903**		119,714		297,132
Long-term investments		**3,108**		**3,108**		4,342		4,342
Goodwill (c)		**51,589**		**19,840**		19,840		19,840
Reclamation fund		**-**		**-**		69,003		69,003
Capital assets (c and d)		**2,031,501**		**1,001,060**		1,606,995		780,868
	$	**2,581,716**	**$**	**1,702,952**	$	2,084,676	$	1,435,967

	2010 CDN GAAP	2010 U.S. GAAP	2009 CDN GAAP	2009 U.S. GAAP
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$ 253,086**	**$ 253,086**	$ 197,633	$ 197,633
Unit based compensation liability (a)	**-**	**-**	-	23,772
Dividends or distributions payable	**16,910**	**16,910**	15,109	15,109
Derivative instruments	**12,143**	**12,143**	1,772	1,772
Income taxes payable	**58,795**	**58,795**	2,366	2,366
Future income taxes	**-**	**-**	683	683
	340,934	**340,934**	217,563	241,335
Derivative instruments	**1,767**	**1,767**	-	-
Long-term debt	**302,558**	**302,558**	159,723	159,723
Amount due pursuant to acquisition	**114,349**	**114,349**	111,402	111,402
Asset retirement obligations	**274,560**	**274,560**	237,110	237,110
Unit based compensation liability (a)	**-**	**-**	-	9,737
Future income taxes (g)	**246,982**	**148,305**	218,764	174,586
	1,281,150	**1,182,473**	944,562	933,893
Non-controlling interest - exchangeable shares (c)	**-**	**-**	100,824	-
Temporary equity (b and c)	**-**	**-**	-	2,612,624
SHAREHOLDERS' OR UNITHOLDERS' EQUITY				
Shareholders' capital (b)	**1,045,930**	**2,923,146**	-	-
Unitholders' capital (b)	**-**	**-**	711,667	-
Contributed surplus (a)	**39,841**	**40,726**	30,413	-
Retained earnings (deficit)	**214,795**	**(2,443,393)**	297,210	(2,110,550)
	1,300,566	**520,479**	1,039,290	(2,110,550)
	$ 2,581,716	**$ 1,702,952**	$ 2,084,676	$ 1,435,967

a) Equity based compensation

Prior to the corporate conversion (see Note 1), Vermilion's equity based compensation plan was accounted for as a liability plan under U.S. GAAP as the trust units underlying the plan were redeemable for cash on demand. Under Canadian GAAP, the plan has always been accounted for as an equity plan. Liability plan accounting required that the fair value of the awards be remeasured at each reporting date until settlement, with the corresponding changes in the fair value reflected in net earnings. Settlement was considered to have occurred after the unitholder had been subject to the risks and awards of trust unit ownership for a reasonable period of time after the award had vested. Upon settlement, the fair value of the award was reclassified to temporary equity (see "b" below).

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 plan accounting under U.S. GAAP. Accordingly, at the date of conversion, the fair value of the vested portion of outstanding awards was reclassified from liability to contributed surplus. As the amount reclassified to contributed surplus under U.S. GAAP was determined based on the fair value of a trust unit at the date of the corporate conversion rather than at the grant date, the amount of contributed surplus as at December 31, 2010 under U.S. GAAP differs from that under Canadian GAAP.

U.S. GAAP requires that expected forfeitures be reflected in the determination of equity based compensation expense. Under Canadian GAAP, Vermilion accounts for forfeitures as they occur. For the year ended December 31, 2010, Vermilion estimated an annual forfeiture rate of 4.09% when determining equity based compensation expense under U.S. GAAP (2009 - 13.26%).

b) Temporary equity

As trust units were redeemable on demand for cash and as exchangeable shares could only be redeemed for trust units under the terms of the Trust Indenture, prior to the corporate conversion (see Note 1), U.S. GAAP required that trust units and exchangeable shares be carried at their redemption value as temporary equity with changes in the redemption value reflected as adjustments to retained earnings. Under Canadian GAAP, the trust units were considered permanent equity. As a result of the corporate conversion, outstanding trust units and exchangeable shares were exchanged for non-redeemable common shares and accordingly, the balance in temporary equity of $2.91 billion as at the date of the corporate conversion was reclassified to shareholders' capital.

c) Non-controlling interest adjustment

Under Canadian GAAP, exchangeable shares were classified as non-controlling interest as they represented a minority ownership in a subsidiary of the Trust. As the exchangeable shares could only be exchanged for trust units, they were classified as temporary equity under U.S. GAAP. Accordingly, non-controlling interest net income as recorded under Canadian GAAP has been eliminated. In addition, increases to capital assets and goodwill recorded under Canadian GAAP of $190.0 million and $31.7 million, respectively (2009 - $3.2 million and nil, respectively) relating to the conversion of exchangeable shares prior to and upon the corporate conversion during the year ended December 31, 2010, as well as the related future income taxes and depletion effects, have been eliminated.

Under U.S. GAAP, the exchangeable shares were included in the calculation of basic weighted average trust units outstanding whereas under Canadian GAAP they were only incorporated into diluted weighted average trust units outstanding.

d) Ceiling tests and depletion

Under U.S. GAAP full cost accounting, the carrying value of petroleum and natural gas properties and related facilities, net of deferred income taxes, is limited to the present value of after tax future net revenue from proven reserves, discounted at 10% (based on the average of the first of the month price for the twelve-month period prior to the balance sheet date), plus the cost of properties not being amortized (for example, major development projects) net of the income tax effects related to the differences between book and tax bases. Under Canadian GAAP, an impairment loss occurs when the carrying amount of the Company's property, plant and equipment exceeds the estimated undiscounted future net cash flows associated with the Company's proved reserves. If an impairment loss is determined to have occurred, the costs carried on the consolidated balance sheet in excess of the discounted future net cash flows associated with the Company's proved and probable reserves are charged to income. The application of the impairment test under U.S. GAAP at December 31, 2010 resulted in a writedown of capitalized costs of $98.1 million on a before-tax basis (2009 - $363.2 million) which is reflected as additional depletion expense.

As a result of historical impairments recorded under U.S. GAAP, Vermilion's depletion expense was lower than determined under Canadian GAAP by $83.8 million for the year ended December 31, 2010 (2009 - $78.5 million).

e) Equity method accounting adjustments

The gain recorded in 2009 associated with the sale of Verenex differed under U.S. GAAP as a result of previous dilutions gains and historical depletion adjustments. Under U.S. GAAP, the gain associated with this sale was $51.8 million.

f) Effect on consolidated statements of cash flows

Vermilion presents a subtotal before changes in non-cash working capital and asset retirement costs incurred in the consolidated statement of cash flows. This subtotal would not be presented in a cash flow statement prepared in accordance with U.S. GAAP.

g) Future income taxes

As a result of adjustments to capital assets associated with the conversion of exchangeable shares (see “c” above) as well as historical differences related to ceiling tests and depletion (see “d” above), future income taxes under U.S. GAAP differs from that reported under Canadian GAAP.

Corporate Information

DIRECTORS

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

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

Lorenzo Donadeo
Calgary, Alberta

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

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

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

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

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

ANNUAL GENERAL MEETING

May 6, 2011 at 10:00 a.m.
The Ballroom
Metropolitan Centre
333 – 4th Avenue S.W.
Calgary, Alberta

OFFICERS AND KEY PERSONNEL

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

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

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

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

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
Toronto Stock Exchange
Symbol: VET
US OTC
Symbol: VEMTF

INVESTOR RELATIONS CONTACT
Paul L. Beique, Vice President Capital Markets
Dean Morrison, Director Investor Relations
403.269.4884 TEL
403.476.8100 FAX
1.866.895.8101 TOLL FREE
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EXHIBIT 99.4

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the use of our reports dated March 10, 2011 relating to the consolidated financial statements of Vermilion Energy Inc. and subsidiaries and the effectiveness of Vermilion Energy Inc.'s and subsidiaries' internal control over financial reporting appearing in this Annual Report on Form 40-F of Vermilion Energy Inc for the year ended December 31, 2010.

"/s/ Deloitte & Touche LLP"

Independent Registered Chartered Accountants
Calgary, Canada
March 11, 2011

EXHIBIT 99.5

CONSENT OF INDEPENDENT ENGINEERS

We hereby consent to the use of and reference to our name and our reports, and the inclusion of information derived from our reports, evaluating Vermilion Energy Inc.'s petroleum and natural gas reserves as at December 31, 2010, in this Annual Report on Form 40-F of Vermilion Energy Inc.

Yours very truly,

("GLJ Petroleum Consultants Ltd.")

GLJ Petroleum Consultants Ltd.
4100, 400 - 3rd Avenue S.W.,
Calgary, Alberta, Canada T2P 4H2
(403) 266-9500 Fax (403) 262-1855

March 11, 2011

EXHIBIT 99.6

VERMILION ENERGY INC.
CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Curtis Hicks, certify that:

1. I have reviewed this annual report on Form 40-F of Vermilion Energy Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 11, 2011

("Curtis Hicks")

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[Signature]
Curtis Hicks, Chief Financial Officer

EXHIBIT 99.6

VERMILION ENERGY INC.
CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Lorenzo Donadeo, certify that:

1. I have reviewed this annual report on Form 40-F of Vermilion Energy Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 11, 2011

("Lorenzo Donadeo")

_____

[Signature]
Lorenzo Donadeo, Chief Executive Officer

EXHIBIT 99.7

VERMILION ENERGY INC.
CERTIFICATE OF THE CHIEF FINANCIAL OFFICER

Pursuant to Section 906(a) of the Sarbanes-Oxley Act of 2002
Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18 of the United States Code

In connection with the annual report of Vermilion Energy Inc. (the "Corporation") on Form 40-F for the fiscal year ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Curtis Hicks, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Dated at Calgary, Alberta, Canada this 11th day of March 2011.

("Curtis W. Hicks")
_____
CURTIS W. HICKS, CHIEF FINANCIAL OFFICER

EXHIBIT 99.7

VERMILION ENERGY INC.
CERTIFICATE OF THE CHIEF EXECUTIVE OFFICER

Pursuant to Section 906(a) of the Sarbanes-Oxley Act of 2002
Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18 of the United States Code

In connection with the annual report of Vermilion Energy Inc. (the "Corporation") on Form 40-F for the fiscal year ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lorenzo Donadeo, Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Dated at Calgary, Alberta, Canada this 11th day of March 2011.

("Lorenzo Donadeo")

_____
LORENZO DONADEO, CHIEF EXECUTIVE OFFICER