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, 2012
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: **99,134,907 shares**

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

þ **Yes** ¨ No

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

o **Yes** ¨ No

DOCUMENTS FILED PURSUANT TO GENERAL INSTRUCTIONS

In accordance with General Instruction B.(3) of Form 40-F, the Registrant has filed the following documents as part of this Annual Report on Form 40-F, as set forth in the Exhibit Index attached hereto:

Exhibit 99.1 - Annual Information Form for the fiscal year ended December 31, 2012
Exhibit 99.2 - Management's Discussion and Analysis for the fiscal year ended December 31, 2012; and
Exhibit 99.3 - Audited Annual Financial Statements for the fiscal year ended December 31, 2012

In accordance with General Instruction D.(9) of Form 40-F, the Registrant has filed the written consent of certain experts named in the foregoing Exhibits as Exhibits 99.5 and the written consent of its independent auditors as Exhibit 99.4, as set forth in the Exhibit Index attached hereto.

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 "Commission"). 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.

B. Management's Annual Report on Internal Controls.

See page 2 of the 2012 Audited Financial Statements included as Exhibit 99.3 to this report.

C. Auditor Attestation

See page 3 and 4 of the 2012 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 Commission) 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 Commission 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 Registrant’s website at www.vermilionenergy.com.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

See page 40 of the Annual Information Form for the year ended December 31, 2012 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 Registrant 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 as at December 31, 2012 (Cdn $000’s)

($M)	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years	Total
Long-term debt	13,406	449,034	226,625	-	689,065
Operating lease obligations	9,178	17,941	14,924	34,006	76,049
Ship or pay agreement relating to the Corrib project	6,374	10,377	8,280	35,548	60,579
Purchase obligations	18,529	9,417	997	-	28,943
Drilling and service agreements	14,702	-	-	-	14,702
Total contractual obligations	62,189	486,769	250,826	69,554	869,338

IDENTIFICATION OF THE AUDIT COMMITTEE

The Registrant's Board of Directors has a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act which satisfies the requirements of Exchange Act Rule 10A-3. The Registrant's Audit Committee is comprised of W. Kenneth Davidson (Chair), Claudio A. Ghersinich, Joseph F. Killi, Larry J. Macdonald and William F. Madison, all of whom, in the opinion of the Registrant's Board of Directors are independent (as determined under Rule 10A-3 of the Exchange Act and the corporate governance standards of the NYSE) and are financially literate.

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 Commission 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 Commission 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 8, 2013

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



EXHIBIT 99.1

VERMILION ENERGY INC.

ANNUAL INFORMATION FORM

For the Year Ended December 31, 2012

Dated March 8, 2013



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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;

"AIF" means Annual Information Form;

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

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

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

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

"contingent resources" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from know accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies;

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

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

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

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

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

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

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

"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 14, 2013 and effective December 31, 2012;

"IFRS" means International Financial Reporting Standards;

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

"Meeting" means the annual meeting of Shareholders of the Company to be held on May 1, 2013 (or, if adjourned, such other date on which the meeting is held);

"NYSE" means New York Stock Exchange;

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

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

"prospective resources" are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects;

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

"Senior Unsecured Notes" means the $225 million aggregate principal amount of five year senior unsecured notes of the Company issued February 10, 2011;

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

"Shareholder Rights Plan Agreement" means the Shareholder Rights Plan Agreement dated September 1, 2010 between the Company and Computershare Trust Company of Canada establishing the Rights Plan, as amended or supplemented from time to time;

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

"TSX" means the Toronto Stock Exchange;

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

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

"Unitholders" means former unitholders of the Trust;

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

"VRL" means Vermilion Resources Ltd., previously a subsidiary of the corporation;

"ZEF" means Zaza Energy France S.A.S.

Conventions

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

Abbreviations

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

Conversion

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

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

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

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

- capital expenditures;
- business strategies and objectives;
- estimated reserve quantities and the discounted present value of future net cash flows from such reserves;
- petroleum and natural gas sales;
- future production levels (including the timing thereof) and rates of average annual production growth, estimated contingent resources and prospective resources;
- exploration and development plans;
- acquisition and disposition plans and the timing thereof;
- operating and other expenses, including the payment of future dividends;
- royalty and income tax rates;
- the timing of regulatory proceedings and approvals;
- the timing of first commercial gas from the Corrib field; and
- the estimate of Vermilion's share of the expected natural gas production from the Corrib field.

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

- the ability of 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 crude oil, natural gas liquids and natural gas successfully to current and new customers;
- the timing and costs of pipeline and storage facility construction and expansion and the ability to secure adequate product transportation;
- the timely receipt of required regulatory approvals;
- the ability of the Company to obtain financing on acceptable terms;
- foreign currency exchange rates and interest rates;
- future crude oil, natural gas liquids and natural gas prices; and
- Management's expectations relating to the timing and results of 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. Financial outlooks are provided for the purpose of understanding the Company's financial strength and business objectives and the information may not be appropriate for other purposes. Forward looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by 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, natural gas liquids and natural gas;
- risks and uncertainties involving geology of crude oil, natural gas liquids and natural gas deposits;
- risks inherent in the Company's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life and estimates of resources and associated expenditures;
- the uncertainty of estimates and projections relating to production, 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 on acceptable terms;
- fluctuations in crude oil, natural gas liquids and natural gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;
- the ability of the Company to add production and reserves through exploration and development 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.

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.

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 of natural gas 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.

Vermilion retained GLJ to conduct an independent resource evaluation to assess contingent and prospective resources across all of the Company's key operating regions with an effective date of December 31, 2012 (the "GLJ Resources Assessment"). All contingent and prospective resources evaluated in the GLJ Resources Assessment were deemed economic at the effective date of December 31, 2012.

The estimates of volumes of, and the net present value of the future net revenue attributable to, contingent resources and prospective resources in this annual information form are derived from the GLJ Resources Assessment. The GLJ Resources Assessment was prepared in accordance with COGEH and NI 51-101 by GLJ, an independent qualified reserve evaluator.

A range of contingent and prospective resources estimates (low, best and high) were prepared by GLJ. See notes 5 to 8 of the tables in the section entitled "Contingent and Prospective Resources" for a description of low estimate, best estimate and high estimate.

Contingent Resources

"Contingent resources" are not, and should not be confused with, petroleum and natural gas reserves. "Contingent resources" are defined in COGEH as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. It is also appropriate to classify as contingent resource the estimated discovered recoverable quantities associated with a project in the early evaluation stage.

The primary contingencies which currently prevent the classification of Vermilion's contingent resource as reserves include but are not limited to:

- preparation of firm development plans, including determination of the specific scope and timing of projects;
- project sanction;
- access to capital markets;
- shareholder and regulatory approvals;
- access to required services and field development infrastructure;
- oil and natural gas prices in Canada and internationally in jurisdictions in which Vermilion operates;
- demonstration of economic viability;
- future drilling program and testing results;
- further reservoir delineation and studies;
- facility design work;
- limitations to development based on adverse topography or other surface restrictions; and
- the uncertainty regarding marketing and transportation of petroleum from development areas.

There is no certainty that it will be commercially viable to produce any portion of the contingent resources or that Vermilion will produce any portion of the volumes currently classified as contingent resources. The estimates of contingent resources involve implied assessment, based on certain estimates and assumptions, that the resources described exists in the quantities predicted or estimated and that the resources can be profitably produced in the future. **The net present value of the future net revenue from the contingent resources does not necessarily represent the fair market value of the contingent resources.** Actual contingent resources (and any volumes that may be reclassified as reserves) and future production therefrom may be greater than or less than the estimates provided herein.

Prospective Resources

Prospective resources are not, and should not be confused with, petroleum and natural gas reserves. "Prospective resources" are defined in COGEH as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects.

There is no certainty that any portion of the prospective resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources or that Vermilion will produce any portion of the volumes currently classified as prospective resources. The estimates of prospective resources involve implied assessment, based on certain estimates and assumptions, that the resources described exists in the quantities predicted or estimated and that the resources can be profitably produced in the future. The net present value of the future net revenue from the prospective resources does not necessarily represent the fair market value of the prospective resources. The recovery and resources estimates provided herein are estimates only. Actual prospective resources (and any volumes that may be reclassified as reserves or contingent resources) and future production from such prospective resources may be greater than or less than the estimates provided herein.

NON-GAAP MEASURES

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

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

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

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

VERMILION ENERGY INC.

General

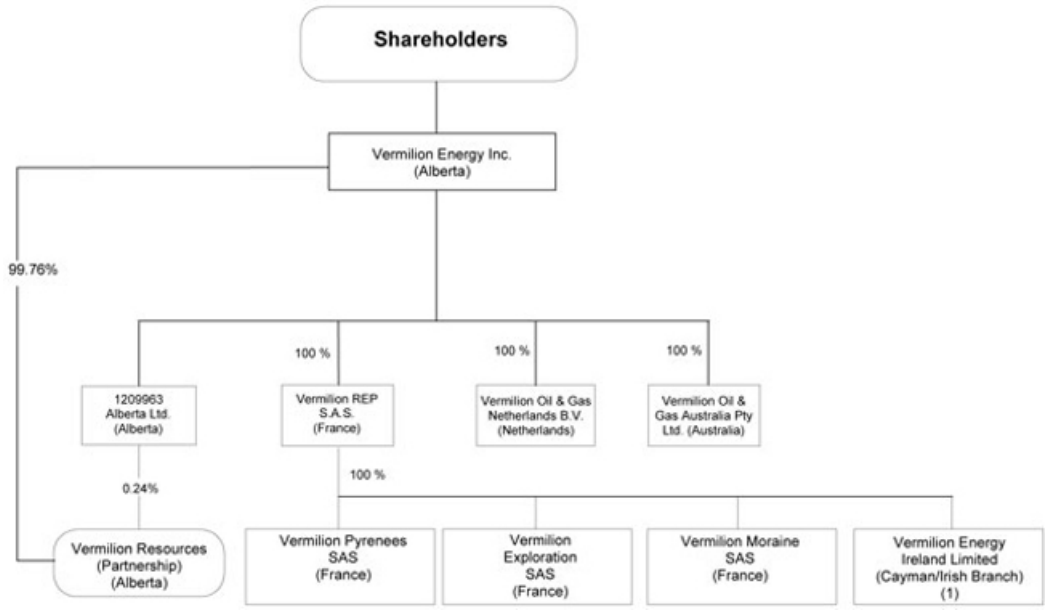
Vermilion Energy Inc. is the successor to the Trust, following the completion of the conversion of the Trust from an income trust to a corporate structure by way of a court approved plan of arrangement under the ABCA on September 1, 2010. Pursuant to the Conversion Arrangement, Unitholders exchanged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

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

Vermilion Energy Inc. was incorporated on July 21, 2010 pursuant to the provisions of the ABCA for the purpose of facilitating the Conversion Arrangement. On January 1, 2013, Vermilion Energy Inc. completed amalgamations with two of its wholly-owned subsidiaries, 1209974 Alberta Ltd. and Vermilion Resources Ltd. Vermilion Energy Inc. was the resulting entity upon completion of the amalgamations. 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, after giving effect to the amalgamations effective January 1, 2013, where each principal subsidiary was incorporated or formed and the percentage of votes attaching to all voting securities of each subsidiary beneficially owned directly or indirectly by Vermilion. Reference should be made to the appropriate sections of this annual information form for a complete description of the structure of the Company.



Note:
(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 expand its portfolio of organic growth opportunities and pursue its strategic plan that targets modest average annual production growth while maintaining a reliable and growing dividend. Vermilion continues to develop new growth initiatives which target the identification and capture of meaningful unconventional resource related exploration exposure in Canada, Europe and Australia. Where possible, the Company will seek to expand its reserve base through the selective addition of high-quality, long-life reserves with low risk development opportunities.

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

History of Vermilion

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

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

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

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

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

On January 24, 2012, Vermilion announced that the Company, through its wholly-owned subsidiaries, acquired certain working interests in six producing fields located in the Paris and Aquitaine basins in France. Taking into consideration an effective date of January 1, 2011 and customary closing adjustments, Vermilion paid approximately $106 million cash at closing. Vermilion financed this acquisition indirectly through proceeds received from the November 2011 equity issuance. The acquisition did not constitute a "significant acquisition" within the meaning of applicable securities laws.

On November 14, 2012, Vermilion announced that the board of directors approved an increase to its monthly dividend by 5.3% to $0.20 per share from $0.19 per share. The increase became effective for the January 2013 dividend paid on February 15, 2013. The dividend increase represents Vermilion's second increase since initiating a dividend ten years ago. Also, on November 14, 2012 Vermilion announced that it had initiated the process with the NYSE Euronext for a secondary listing of the Company's common shares on the NYSE Euronext's New York Stock Exchange, subject to fulfilling all of the listing requirements of the NYSE. Pending receipt of all applicable exchange and regulatory approvals, the Company expects its common shares will be listed on the NYSE during the first quarter of 2013 under the ticker symbol "VET".

On December 27, 2012, Vermilion announced that the Company, through its wholly-owned subsidiaries, acquired 100% of the shares of Zaza Energy France S.A.S. ("ZEF"). Pursuant to the acquisition, Vermilion acquired operating interests covering approximately 24,300 acres with 100% working interests in the Saint Firmin, Chateaurenard, Courtenay, Chuelles, and Charmottes fields in the Paris Basin. Taking into consideration an effective date for the acquisition of October 1, 2012 and customary closing adjustments, Vermilion paid approximately $75 million cash at closing including working capital. Vermilion financed this acquisition through its bank revolving credit facility. The acquisition did not constitute a "significant acquisition" within the meaning of applicable securities laws.

On December 31, 2012, pursuant to the terms of the acquisition agreement whereby Vermilion acquired an 18.5% non-operating working interest in the offshore Corrib gas field, Vermilion made an additional payment to the vendor of $134 million (US$135 million).

In order to consolidate its Canadian subsidiaries, on January 1, 2013, Vermilion amalgamated with two of its wholly-owned subsidiaries, 1209974 Alberta Ltd. and Vermilion Resources Ltd. Vermilion Energy Inc. was the resulting entity upon completion of the amalgamations. As a result of the forgoing amalgamations, Vermilion became the managing partner of Vermilion Resources.

As at January 31, 2013, Vermilion had 375 full time employees of which 183 employees were located in its Calgary head office, 35 employees in its Canadian field offices, 107 employees in France, 17 employees in the Netherlands and 33 employees in Australia.

NARRATIVE DESCRIPTION OF THE BUSINESS

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 expand its portfolio of organic growth opportunities and pursue its strategic plan that targets modest average annual production growth while maintaining a reliable and growing dividend. Vermilion continues to develop new growth initiatives which target the identification and capture of meaningful unconventional resource related exploration exposure in Canada, Europe and Australia. Where possible, the Company will seek to expand its reserve base through the selective addition of high-quality, long-life reserves with low risk development opportunities.

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

Description of Properties

The following is a description of the oil and natural gas properties, plants, facilities and installations in which Vermilion has an interest and that are material to Vermilion's operations and exploration activities. The production numbers stated refer to Vermilion's working interest share before deduction of Crown, freehold and other royalties. Reserve amounts are stated, before deduction of royalties, as at December 31, 2012, based on forecasted costs and price assumptions as evaluated in the GLJ Report.

Canada Assets

Vermilion's production in Canada is located primarily in three areas, all of which are 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 Cardium light oil play in Drayton Valley are the main oil producing areas.

Vermilion holds an average working interest of 69% in 387,016 (267,715 net) acres of developed land, 518 (348 net) producing natural gas wells and 380 (243 net) producing oil wells as at December 31, 2012. 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 20,500 bbl/d of oil in five operated oil batteries including a 15,000 bbl/d oil battery that handles Cardium production. The 15,000 bbl/d oil battery commenced operations August 1, 2011 and as of December 2012 was processing approximately 7,885 bbl/d of oil which represents 94% of Vermilion's total Cardium oil 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, 2012, production in Canada averaged approximately 37.5 MMcf/d of natural gas and 8,891 bbl/d of oil and NGL. Sales of natural gas in 2012 were approximately $34.6 million (2011 - $60.6 million) and sales from oil and NGLs were approximately $269.6 million (2011 - $199.2 million).

The GLJ Report assigned 40,700 Mboe of total proved reserves and 67,770 Mboe of proved plus probable reserves to Vermilion's properties located in Canada.

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. In January, 2012 Vermilion, through its wholly-owned subsidiaries, acquired certain working interests in six producing fields located in the Paris and Aquitaine basins in France. Pursuant to the acquisition, Vermilion acquired the remaining working interests in three fields in which it previously held interests (Itteville, Vert Le Grand and Vic Bihl) and working interests in three new fields (Vert Le Petit and La Croix Blanche at 100% working interest and Dommartin-Lettrée at 56% working interest). Effective October 1, 2012 Vermilion, through its wholly owned subsidiaries, acquired 100% of the shares of ZEF and operating interests covering approximately 24,300 acres with 100% working interests in the Saint Firmin, Chateaurenard, Courtenay, Chuelles, and Charmottes fields in the Paris Basin. Vermilion now operates 13 oil batteries with current producing capacities of 14,159 bbl/d. Vermilion holds 96% working interest in 226,610 (217,358 net) acres of developed land in the Aquitaine and Paris Basins. Vermilion had 317 (312 net) producing oil wells in France as at December 31, 2012.

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 business, refer to "Competition" in the Risk Factors section of this AIF.

For the year ended December 31, 2012, production in France averaged approximately 9,952 bbl/d of oil and 3.6 MMcf/d of natural gas. Sales from oil in 2012 were approximately $374.2 million (2011 - $319.9 million) and sales from natural gas were approximately $14.2 million (2011 - $4.2 million).

The GLJ Report assigned 32,746 Mboe of total proved reserves and 47,012 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 74% working interest over the nine concessions in 49,337 (36,517 net) acres of developed land and 57 (43 net) producing gas wells as at December 31, 2012.

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, 2012, Vermilion's production in the Netherlands averaged 67 bbl/d of NGLs and 34.1 MMcf/d of natural gas. Sales in 2012 of natural gas were approximately $121.1 million (2011 - $114.2 million) and sales from NGLs were approximately $2.4 million (2011 - $2.0 million).

The GLJ Report assigned 6,163 Mboe of total proved reserves and 11,770 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 producing 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.

Western Australia's northwest shelf is subject to seasonal disruptions caused by cyclones. During cyclone season (December to March) the Company may have to reduce production rates at its offshore facilities as a result of the inability to offload to tankers due to bad weather. Cyclones may also cause production shut-ins due to the evacuation of staff or damage to 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, 2012, Vermilion's production in Australia averaged 6,360 bbl/d of oil. Sales in 2012 from oil were approximately $267.0 million (2011 - $331.4 million).

The GLJ Report assigned 10,327 Mboe of total proved reserves and 17,143 Mboe of proved plus probable reserves to Vermilion's property located in Australia.

Ireland Assets

Vermilion holds an 18.5% non-operating interest in the offshore Corrib gas field located off the northwest coast of Ireland. Production from Corrib is expected to increase Vermilion's volumes by approximately 55 MMcf (9,000 boe/d) once the field reaches peak production. Vermilion acquired its 18.5% working interest in the project on July 30, 2009, comprised of seven offshore wells, both offshore and onshore pipeline segments as well as a natural gas processing facility. At the time of the acquisition most of the key components of the project, with the exception of the onshore pipeline, were either complete or in the latter stages of development. In 2011, approvals and permissions were granted for the onshore gas pipeline and tunneling commenced on December 16, 2012. Vermilion expects to continue to invest capital in this project over the next two years with approximately $85 million budgeted for 2013. The project is anticipated to produce first gas toward the end of 2014 and reach peak production levels by mid-2015.

The GLJ Report assigned 15,326 Mboe of total proved reserves and 21,172 Mboe of proved plus probable reserves to Vermilion's property located in Ireland.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

Reserves and Future Net Revenue

The following is a summary of the oil and natural gas reserves and the value of future net revenue of Vermilion as evaluated by GLJ in a report dated February 14, 2013 with an effective date of December 31, 2012. Pricing used in the forecast price evaluations is set forth in the notes to the tables.

Reserves and other oil and gas information contained in this section is effective December 31, 2012 unless otherwise stated.

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

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

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

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

The following tables may not total due to rounding.

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

	Light and Medium Oil		Heavy Oil		Natural Gas		Natural Gas Liquids		BOE	
	Gross [1] (Mbbl)	Net [1] (Mbbl)	Gross [1] (Mbbl)	Net [1] (Mbbl)	Gross [1] (MMcf)	Net [1] (MMcf)	Gross [1] (Mbbl)	Net [1] (Mbbl)	Gross (Mboe)	Net (Mboe)
Proved Developed Producing [2] [5]										
Australia	10,327	10,327	-	-	-	-	-	-	10,327	10,327
Canada	9,521	7,890	17	16	66,035	59,340	2,360	1,564	22,905	19,361
France	30,898	28,962	-	-	1,377	1,336	-	-	31,127	29,184
Ireland	-	-	-	-	-	-	-	-	-	-
Netherlands	-	-	-	-	20,778	20,778	33	33	3,496	3,496
Total Proved Developed Producing	50,746	47,179	17	16	88,190	81,453	2,393	1,597	67,855	62,368
Proved Developed Non-Producing [2] [6]										
Australia	-	-	-	-	-	-	-	-	-	-
Canada	549	478	-	-	7,032	6,424	154	114	1,875	1,662
France	602	576	-	-	-	-	-	-	602	576
Ireland	-	-	-	-	-	-	-	-	-	-
Netherlands	-	-	-	-	15,828	15,828	29	29	2,667	2,667
Total Proved Developed Non-Producing	1,151	1,054	-	-	22,860	22,253	184	143	5,145	4,906
Proved Undeveloped [2] [7]										
Australia	-	-	-	-	-	-	-	-	-	-
Canada	8,045	7,172	-	-	40,947	38,215	1,051	866	15,920	14,407
France	1,017	984	-	-	-	-	-	-	1,017	984
Ireland	-	-	-	-	91,954	91,954	-	-	15,326	15,326
Netherlands	-	-	-	-	-	-	-	-	-	-
Total Proved Undeveloped	9,062	8,157	-	-	132,901	130,170	1,051	866	32,263	30,717
Proved [2]										
Australia	10,327	10,327	-	-	-	-	-	-	10,327	10,327
Canada	18,115	15,540	17	16	114,014	103,980	3,565	2,544	40,700	35,430
France	32,516	30,522	-	-	1,377	1,336	-	-	32,746	30,744
Ireland	-	-	-	-	91,954	91,954	-	-	15,326	15,326
Netherlands	-	-	-	-	36,606	36,606	62	62	6,163	6,163
Total Proved	60,959	56,389	17	16	243,951	233,875	3,627	2,606	105,262	97,991
Probable [3]										
Australia	6,815	6,815	-	-	-	-	-	-	6,816	6,816
Canada	14,099	11,888	3	3	65,654	60,267	2,026	1,522	27,070	23,457
France	14,263	13,392	-	-	23	23	-	-	14,266	13,396
Ireland	-	-	-	-	35,078	35,078	-	-	5,846	5,846
Netherlands	-	-	-	-	33,277	33,277	60	60	5,607	5,607
Total Probable	35,177	32,095	3	3	134,033	128,646	2,086	1,582	59,605	55,121
Proved Plus Probable [2] [3]										
Australia	17,143	17,143	-	-	-	-	-	-	17,143	17,143
Canada	32,214	27,428	20	19	179,668	164,247	5,591	4,066	67,770	58,887
France	46,779	43,914	-	-	1,401	1,358	-	-	47,012	44,140
Ireland	-	-	-	-	127,033	127,033	-	-	21,172	21,172
Netherlands	-	-	-	-	69,883	69,883	123	123	11,770	11,770
Total Proved Plus Probable	96,136	88,484	20	19	377,984	362,521	5,713	4,188	164,867	153,111

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	494,122	448,134	409,522	376,948	349,281	243,707	220,036	200,192	183,496	169,361
Canada	720,151	571,011	473,635	405,829	356,227	720,151	571,011	473,635	405,829	356,227
France	1,840,380	1,360,328	1,096,420	929,750	814,095	1,346,767	1,007,535	815,310	691,887	605,409
Ireland	-	-	-	-	-	-	-	-	-	-
Netherlands	95,859	96,540	95,068	92,801	90,287	59,351	61,232	60,854	59,590	57,997
Total Proved Developed Producing	3,150,512	2,476,013	2,074,645	1,805,329	1,609,890	2,369,977	1,859,814	1,549,991	1,340,802	1,188,995
Proved Developed Non-Producing [2] [6]										
Australia	-	-	-	-	-	-	-	-	-	-
Canada	58,017	45,252	37,604	32,430	28,672	58,017	45,252	37,604	32,430	28,672
France	36,048	26,937	21,530	17,961	15,415	23,500	17,340	13,696	11,299	9,598
Ireland	-	-	-	-	-	-	-	-	-	-
Netherlands	127,942	105,445	89,847	78,497	69,903	92,674	73,423	60,477	51,329	44,592
Total Proved Developed Non-Producing	222,007	177,634	148,982	128,887	113,989	174,191	136,015	111,777	95,058	82,861
Proved Undeveloped [2] [7]										
Australia	-	-	-	-	-	-	-	-	-	-
Canada	427,998	272,807	176,581	113,758	70,957	426,312	272,031	176,211	113,575	70,863
France	62,306	35,200	23,126	15,933	11,043	40,767	21,078	12,160	6,890	3,377
Ireland	596,255	421,845	300,004	212,839	149,179	596,255	421,845	300,004	212,839	149,179
Netherlands	-	-	-	-	-	-	-	-	-	-
Total Proved Undeveloped	1,086,558	729,852	499,712	342,531	231,178	1,063,333	714,953	488,375	333,305	223,419
Proved [2]										
Australia	494,122	448,134	409,522	376,948	349,281	243,707	220,036	200,192	183,496	169,361
Canada	1,206,166	889,070	687,821	552,017	455,855	1,204,480	888,294	687,450	551,834	455,762
France	1,938,734	1,422,465	1,141,077	963,644	840,552	1,411,034	1,045,952	841,167	710,076	618,385
Ireland	596,255	421,845	300,004	212,839	149,179	596,255	421,845	300,004	212,839	149,179
Netherlands	223,801	201,985	184,915	171,298	160,190	152,025	134,656	121,331	110,919	102,589
Total Proved	4,459,077	3,383,499	2,723,339	2,276,748	1,955,057	3,607,500	2,710,782	2,150,144	1,769,165	1,495,276
Probable [3]										
Australia	358,056	294,555	246,961	210,946	183,257	160,229	127,615	103,409	85,320	71,604
Canada	1,003,214	617,181	410,603	289,652	213,464	758,875	475,240	323,042	232,898	175,146
France	1,043,805	566,413	365,741	259,204	194,393	680,950	364,010	229,354	157,906	114,676
Ireland	343,183	221,294	148,593	103,454	74,378	343,183	221,294	148,593	103,454	74,378
Netherlands	290,794	215,925	171,706	143,092	123,206	161,323	119,036	94,056	77,928	66,768
Total Probable	3,039,051	1,915,368	1,343,605	1,006,348	788,698	2,104,560	1,307,195	898,454	657,506	502,572
Proved Plus Probable [2] [3]										
Australia	852,178	742,689	656,483	587,895	532,539	403,936	347,650	303,601	268,816	240,965
Canada	2,209,380	1,506,251	1,098,424	841,669	669,319	1,963,355	1,363,534	1,010,492	784,732	630,909
France	2,982,538	1,988,878	1,506,818	1,222,848	1,034,945	2,091,984	1,409,963	1,070,520	867,983	733,061
Ireland	939,437	643,138	448,598	316,293	223,556	939,437	643,138	448,598	316,293	223,556
Netherlands	514,595	417,910	356,621	314,390	283,396	313,348	253,692	215,387	188,847	169,357
Total Proved Plus Probable	7,498,128	5,298,866	4,066,944	3,283,095	2,743,755	5,712,060	4,017,977	3,048,598	2,426,671	1,997,848

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

(M$)	**Revenue**	**Royalties**	**Operating Costs**	**Capital Development Costs**	**Abandonment and Reclamation Costs**	**Future Net Revenue Before Income Taxes**	**Future Income Taxes**	**Future Net Revenue After Income Taxes**
Proved [2]								
Australia	1,124,862	-	561,774	39,302	29,665	494,122	250,415	243,707
Canada	2,654,946	350,011	650,972	412,269	35,528	1,206,166	1,686	1,204,480
France	3,377,006	208,626	962,343	92,573	174,730	1,938,734	527,700	1,411,034
Ireland	983,693	-	156,907	221,938	8,594	596,255	-	596,255
Netherlands	388,643	-	114,058	12,490	38,294	223,801	71,776	152,025
Total Proved	8,529,150	558,637	2,446,054	778,571	286,811	4,459,077	851,576	3,607,500
Proved Plus Probable [2] [3]								
Australia	1,898,680	-	902,469	107,302	36,732	852,178	448,242	403,936
Canada	4,663,789	632,948	1,026,259	748,323	46,880	2,209,380	246,025	1,963,355
France	5,000,274	309,459	1,303,425	195,458	209,392	2,982,538	890,555	2,091,984
Ireland	1,381,321	-	210,825	221,938	9,120	939,437	-	939,437
Netherlands	767,437	-	182,705	24,420	45,717	514,595	201,247	313,348
Total Proved Plus Probable	13,711,501	942,407	3,625,684	1,297,440	347,842	7,498,128	1,786,068	5,712,060

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

	Future Net Revenue Before Income Taxes [1] (Discounted at 10% Per Year) (M$)	Unit Value ($/boe)
Proved Developed Producing		
Light and medium oil [2]	1,848,495	37.05
Natural gas [3]	218,929	19.46
Non-conventional oil and gas activities	7,221	5.91
Total Proved Developed Producing	2,074,645	33.26
Proved Developed Non-Producing		
Light and medium oil [2]	52,002	40.53
Natural gas [3]	94,969	30.44
Non-conventional oil and gas activities	2,010	4.00
Total Proved Developed Non-Producing	148,982	30.37
Proved Undeveloped		
Light and medium oil [2]	172,789	15.91
Natural gas [3]	320,842	17.67
Non-conventional oil and gas activities	6,081	3.58
Total Proved Undeveloped	499,712	16.27
Proved		
Light and medium oil [2]	2,073,743	33.43
Natural gas [3]	634,291	19.50
Non-conventional oil and gas activities	15,305	4.47
Total Proved	2,723,339	27.79
Probable		
Light and medium oil [2]	969,797	26.39
Natural gas [3]	366,288	22.16
Non-conventional oil and gas activities	7,521	4.08
Total Probable	1,343,605	24.38
Proved Plus Probable		
Light and medium oil [2]	3,043,586	30.81
Natural gas [3]	1,000,532	20.39
Non-conventional oil and gas activities	22,826	4.33
Total Proved Plus Probable	4,066,944	26.56

Notes:

(1) Other company revenue and costs not related to a specific production group have been allocated proportionately to production groups. Unit values are based on Company Net Reserves. Net present values of reserves categories are an approximation based on major products.

(2) Including solution gas and other by-products.

(3) Including by-products but excluding solution gas.

Forecast Prices used in Estimates [8]

Year	Light and Medium Crude Oil: WTI Cushing Oklahoma ($US/bbl)	Light and Medium Crude Oil: Edmonton Par Price 40° API ($Cdn/bbl)	Light and Medium Crude Oil: Cromer Medium 29.3° API ($Cdn/bbl)	Crude Oil: Brent Blend FOB North Sea ($US/bbl)	Natural Gas Canada: AECO Gas Price ($Cdn/MMBtu)	Natural Gas France: National Balancing Point (UK)	Natural Gas Netherlands: Gas Price ($Cdn/Mcf)	Natural Gas Liquids: FOB Field Gate ($Cdn/bbl)	Inflation Rate: Percent Per Year	Exchange Rate ($US/$Cdn)
2012	94.10	86.86	81.56	111.60	2.45	9.37	9.70	65.42	1.6	1.001
Forecast										
2013	90.00	85.00	79.90	105.00	3.38	9.13	9.68	65.38	2.0	1.000
2014	92.50	91.50	84.18	102.50	3.83	9.32	9.88	71.37	2.0	1.000
2015	95.00	94.00	86.48	102.50	4.28	9.76	10.35	75.51	2.0	1.000
2016	97.50	96.50	88.78	102.50	4.72	10.25	10.86	77.52	2.0	1.000
2017	97.50	96.50	88.78	100.00	4.95	10.00	10.60	77.52	2.0	1.000
Thereafter	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	1.000

All forecast prices in the table above provided by GLJ. For 2012, the price of Vermilion's natural gas in the Netherlands was based on pricing established by GasTerra, a state owned entity which purchases all natural gas produced by Vermilion in the Netherlands. For 2012, the natural gas price in the Netherlands was calculated using a trailing average of Dated Brent and the natural gas prices from European trading hubs. France natural gas production was benchmarked to National Balancing Point (UK). The benchmark price for Australia and France crude oil was Dated Brent. The benchmark price for Canadian crude oil was Edmonton Par and Canadian natural gas was priced against AECO. For the year ended December 31, 2012, the average realized sales prices before hedging were $117.03 per bbl (Australia) and $107.67 per bbl (France) for Brent-based crude oil, $82.84 per bbl for Canadian-based crude oil and NGLs, $9.81 per Mcf for European natural gas and $2.52 per Mcf for Canadian natural gas.

Reconciliations of Changes in Reserves

The following tables set forth a reconciliation of the changes in Vermilion's gross light and medium crude oil, heavy oil and associated and non-associated gas (combined) reserves as at December 31, 2012 compared to such reserves as at December 31, 2011 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 – Forecast Prices used in Estimates".

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, 2011	12,697	4,800	17,497	12,697	4,800	17,497	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	-	2,000	2,000	-	2,000	2,000	-	-	-	-	-	-
Technical Revisions	53	36	89	53	36	89	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	(95)	(20)	(115)	(95)	(20)	(115)	-	-	-	-	-	-
Production	(2,328)	-	(2,328)	(2,328)	-	(2,328)	-	-	-	-	-	-
At December 31, 2012	10,327	6,816	17,143	10,327	6,816	17,143	-	-	-	-	-	-

Proved [2] Probable [3] P+P [2] [3] Factors	Total Gas: Proved (MMcf)	Total Gas: Probable (MMcf)	Total Gas: Proved Plus Probable (MMcf)	Conventional Natural Gas: Proved (MMcf)	Conventional Natural Gas: Probable (MMcf)	Conventional Natural Gas: Proved Plus Probable (MMcf)	Coal Bed Methane: Proved (MMcf)	Coal Bed Methane: Probable (MMcf)	Coal Bed Methane: Proved Plus Probable (MMcf)	BOE: Proved (Mboe)	BOE: Probable (Mboe)	BOE: Proved Plus Probable (Mboe)
At December 31, 2011	-	-	-	-	-	-	-	-	-	12,697	4,800	17,497
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	-	2,000	2,000
Technical Revisions	-	-	-	-	-	-	-	-	-	53	36	89
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	(95)	(20)	(115)
Production	-	-	-	-	-	-	-	-	-	(2,328)	-	(2,328)
At December 31, 2012	-	-	-	-	-	-	-	-	-	10,327	6,816	17,143

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, 2011	15,972	14,038	30,010	15,953	14,035	29,988	19	3	22	3,358	1,662	5,020
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	3,568	800	4,368	3,568	800	4,368	-	-	-	489	331	820
Technical Revisions	1,395	(736)	659	1,393	(736)	657	2	-	2	169	33	202
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(2,803)	-	(2,803)	(2,799)	-	(2,799)	(4)	-	(4)	(451)	-	(451)
At December 31, 2012	18,132	14,102	32,234	18,115	14,099	32,214	17	3	20	3,565	2,026	5,591

	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, 2011	116,411	58,525	174,936	91,493	48,764	140,257	24,918	9,761	34,679	38,732	25,454	64,186
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	12,449	7,178	19,627	12,449	7,178	19,627	-	-	-	6,132	2,327	8,459
Technical Revisions	2,132	(433)	1,699	102	(2,229)	(2,127)	2,030	1,796	3,826	1,920	(775)	1,145
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	(3,252)	384	(2,868)	-	-	-	(3,252)	384	(2,868)	(542)	64	(478)
Production	(13,726)	-	(13,726)	(12,066)	-	(12,066)	(1,660)	-	(1,660)	(5,542)	-	(5,542)
At December 31, 2012	114,014	65,654	179,668	91,978	53,713	145,691	22,036	11,941	33,977	40,700	27,070	67,770

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, 2011	24,127	11,801	35,928	24,127	11,801	35,928	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	106	130	236	106	130	236	-	-	-	-	-	-
Technical Revisions	1,089	268	1,357	1,089	268	1,357	-	-	-	-	-	-
Acquisitions	10,836	2,064	12,900	10,836	2,064	12,900	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(3,642)	-	(3,642)	(3,642)	-	(3,642)	-	-	-	-	-	-
At December 31, 2012	32,516	14,263	46,779	32,516	14,263	46,779	-	-	-	-	-	-

	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, 2011	596	19	615	596	19	615	-	-	-	24,226	11,805	36,031
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	106	130	236
Technical Revisions	1,088	5	1,093	1,088	5	1,093	-	-	-	1,271	267	1,538
Acquisitions	1,007	-	1,007	1,007	-	1,007	-	-	-	11,004	2,064	13,068
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(1,314)	-	(1,314)	(1,314)	-	(1,314)	-	-	-	(3,861)	-	(3,861)
At December 31, 2012	1,377	24	1,401	1,377	24	1,401	-	-	-	32,746	14,266	47,012

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, 2011	-	-	-	-	-	-	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	-	-	-	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	-	-	-
At December 31, 2012	-	-	-	-	-	-	-	-	-	-	-	-

	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, 2011	91,991	12,968	104,959	91,991	12,968	104,959	-	-	-	15,332	2,161	17,493
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revisions	-	22,074	22,074	-	22,074	22,074	-	-	-	-	3,679	3,679
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	(37)	37	-	(37)	37	-	-	-	-	(6)	6	-
Production	-	-	-	-	-	-	-	-	-	-	-	-
At December 31, 2012	91,954	35,079	127,033	91,954	35,079	127,033	-	-	-	15,326	5,846	21,172

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, 2011	-	-	-	-	-	-	-	-	-	51	56	107
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-	6	4	10
Technical Revisions	-	-	-	-	-	-	-	-	-	29	(2)	27
Acquisitions	-	-	-	-	-	-	-	-	-	-	2	2
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	-	-	-	-	-	-	-	-	-	(24)	-	(24)
At December 31, 2012	-	-	-	-	-	-	-	-	-	62	61	123

	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, 2011	32,768	32,740	65,508	32,768	32,740	65,508	-	-	-	5,512	5,513	11,025
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	3,333	3,633	6,966	3,333	3,633	6,966	-	-	-	562	610	1,172
Technical Revisions	12,134	(3,265)	8,869	12,134	(3,265)	8,869	-	-	-	2,052	(547)	1,505
Acquisitions	854	169	1,023	854	169	1,023	-	-	-	142	31	173
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(12,483)	-	(12,483)	(12,483)	-	(12,483)	-	-	-	(2,105)	-	(2,105)
At December 31, 2012	36,606	33,277	69,883	36,606	33,277	69,883	-	-	-	6,163	5,607	11,770

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, 2011	52,796	30,639	83,435	52,777	30,636	83,413	19	3	22	3,409	1,718	5,127
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	3,674	2,930	6,604	3,674	2,930	6,604	-	-	-	495	336	831
Technical Revisions	2,537	(432)	2,105	2,535	(432)	2,103	2	-	2	199	30	229
Acquisitions	10,836	2,064	12,900	10,836	2,064	12,900	-	-	-	-	2	2
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	(95)	(20)	(115)	(95)	(20)	(115)	-	-	-	-	-	-
Production	(8,773)	-	(8,773)	(8,769)	-	(8,769)	(4)	-	(4)	(476)	-	(476)
At December 31, 2012	60,975	35,181	96,156	60,958	35,178	96,136	17	3	20	3,627	2,086	5,714

	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, 2011	241,766	104,252	346,018	216,848	94,491	311,339	24,918	9,761	34,679	96,499	49,733	146,232
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions & Improved Recovery	15,782	10,811	26,593	15,782	10,811	26,593	-	-	-	6,800	5,067	11,867
Technical Revisions	15,354	18,381	33,735	13,324	16,585	29,909	2,030	1,796	3,826	5,296	2,660	7,956
Acquisitions	1,861	169	2,030	1,861	169	2,030	-	-	-	11,146	2,095	13,241
Dispositions	-	-	-	-	-	-	-	-	-	-	-	-
Economic Factors	(3,289)	421	(2,868)	(37)	37	-	(3,252)	384	(2,868)	(643)	50	(593)
Production	(27,523)	-	(27,523)	(25,863)	-	(25,863)	(1,660)	-	(1,660)	(13,836)	-	(13,836)
At December 31, 2012	243,951	134,034	377,985	221,915	122,093	344,008	22,036	11,941	33,977	105,262	59,605	164,867

Notes:

(1)"Gross Reserves" are Vermilion's working interest (operating or non-operating) share before deduction 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 “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 three 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 2010	1,090	2,034	99,026	100,928	1,152	20,607	362	441	18,148	22,731
2010	4,627	6,588	6,454	107,633	4,943	12,958	268	751	6,795	27,438
2011	3,365	8,127	6,246	114,422	-	11,451	156	743	4,562	29,849
2012	3,378	9,062	10,998	121,962	-	10,939	415	1,051	5,626	32,263
Probable										
Prior to 2010	2,184	8,047	19,348	34,566	1,598	14,374	324	754	5,999	16,958
2010	6,306	12,417	8,106	38,296	2,435	8,066	342	931	8,405	21,075
2011	5,707	15,734	11,191	47,687	-	5,761	280	937	7,852	25,580
2012	3,910	17,536	8,714	75,358	-	8,340	360	1,276	5,723	32,762

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 the estimation of future net revenue attributable to total proved reserves and total proved plus probable reserves (using forecast prices and costs).

(M$)	Total Proved Estimated Using Forecast Prices and Costs	Total Proved Plus Probable Estimated Using Forecast Prices and Costs
Australia		
2013	18,600	86,600
2014	3,978	3,978
2015	4,058	4,058
2016	4,139	4,139
2017	4,221	4,221
Remainder	4,306	4,306
Total for all years undiscounted	39,302	107,302
Canada		
2013	168,444	226,171
2014	108,811	257,861
2015	117,781	197,234
2016	3,236	48,677
2017	2,555	3,226
Remainder	11,442	15,154
Total for all years undiscounted	412,269	748,323
France		
2013	18,221	35,211
2014	32,149	66,161
2015	6,586	50,914
2016	5,797	13,353
2017	5,879	5,879
Remainder	23,941	23,941
Total for all years undiscounted	92,573	195,458
Ireland		
2013	84,404	84,404
2014	75,313	75,313
2015	45,674	45,674
2016	16,547	16,547
2017	-	-
Remainder	-	-
Total for all years undiscounted	221,938	221,938
Netherlands		
2013	4,234	2,842
2014	408	2,632
2015	416	11,515
2016	424	424
2017	433	433
Remainder	6,574	6,574
Total for all years undiscounted	12,490	24,420
Total Company		
2013	293,903	435,228
2014	220,659	405,945
2015	174,515	309,394
2016	30,143	83,140
2017	13,088	13,759
Remainder	46,263	49,975
Total for all years undiscounted	778,571	1,297,440

Vermilion expects to source its capital expenditure requirements from internally generated cash flow and, as appropriate, from the existing credit facility 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, 2012:

	Oil Gross Wells (1)	Oil Net Wells (2)	Natural Gas Gross Wells (1)	Natural Gas Net Wells (2)
Australia				
Producing	19	19	-	-
Non-producing	-	-	-	-
Canada				
Producing	380	243	518	348
Non-producing	123	75	154	115
France				
Producing	317	312	-	-
Non-producing	169	167	-	-
Ireland				
Producing	-	-	-	-
Non-producing	-	-	6	1
Netherlands				
Producing	-	-	57	43
Non-producing	-	-	19	14
Total Producing	716	574	575	391
Total Non-producing	292	242	179	130

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, 2012:

	Acquisition Costs				
(M$)	**Proved Properties**	**Unproved Properties**	**Exploration Costs (1)**	**Development Costs**	**Total Costs**
Australia	-	-	-	49,389	49,389
Canada	69	-	39,045	236,634	275,748
France	169,597	-	-	47,382	216,979
Ireland	-	-	-	58,764	58,764
Netherlands	-	-	272	21,052	21,324
Total	169,666	-	39,317	413,221	622,204

Note:
(1) Includes costs of acquiring undeveloped lands.

Exploration and Development Activities

The following table sets forth the number of development and exploration wells which Vermilion completed during its 2012 financial year:

	Exploration Wells		Development Wells	
	Gross [1]	Net [2]	Gross [1]	Net [2]
Australia				
Oil	-	-	-	-
Gas	-	-	-	-
Standing	-	-	-	-
Dry Holes	-	-	-	-
Total Completed	-	-	-	-
Canada				
Oil	-	-	73.0	52.6
Gas	-	-	2.0	1.1
Standing	-	-	-	-
Dry Holes	-	-	-	-
Total Completed	-	-	75.0	53.7
France				
Oil	-	-	-	-
Gas	-	-	-	-
Service	-	-	-	-
Standing	-	-	-	-
Dry Holes	-	-	-	-
Total Completed	-	-	-	-
Ireland				
Oil	-	-	-	-
Gas	-	-	-	-
Standing	-	-	-	-
Dry Holes	-	-	-	-
Total Completed	-	-	-	-
Netherlands				
Oil	-	-	-	-
Gas	2.0	1.4	-	-
Standing	-	-	-	-
Dry Holes	-	-	-	-
Total Completed	2.0	1.4		
Total Company				
Oil	-	-	73.0	52.6
Gas	2.0	1.4	2.0	1.1
Service	-	-	-	-
Standing	-	-	-	-
Dry Holes	-	-	-	-
Total Completed	2.0	1.4	75.0	53.7

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 $485 million for its 2013 capital program in Australia, Canada, France, Ireland and the Netherlands. The funds will be used for drilling wells to develop reserves in its Canadian Cardium play and liquids-rich gas wells in Drayton Valley. The Company is also planning to drill wells in Australia, France 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, 2012:

Country	Undeveloped Land Gross Acres (1)	Undeveloped Land Net Acres (2)
Australia	-	-
Canada	507,711	427,610
France	362,985	362,985
Ireland	-	-
Netherlands	598,166	435,286
Total	1,468,862	1,225,881

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 9,496 net acres in Canada and 77,094 net acres in France to expire within one year unless the Company initiates the capital activity necessary to retain the rights. The lands are not material to the Company and it does not intend to conduct any work to maintain the land. In the Netherlands, Ireland and Australia, no such rights expire within one year.

Contingent and Prospective Resources

The GLJ Resources Assessment estimated contingent resources of 83.9 million boe (low estimate) to 231.8 million boe (high estimate), with a best estimate of 160.9 million boe, and prospective resources of 9.6 million boe (low estimate) to 541.0 million boe (high estimate), with a best estimate of 249.4 million boe. Contingent and prospective resources are in addition to reserves estimated in the GLJ Report.

Summary information regarding contingent and prospective resources and net present values of future net revenues from contingent and prospective resources are set forth below.

Company Resources as at December 31, 2012 (1) - Forecast Prices and Costs (2) (9)

	Gross	Gross						Net					
	Reserves	Contingent Resources			Prospective Resources			Contingent Resources			Prospective Resources		
Oil and NGLs	P+P (Mbbl)	Low (Mbbl)	Best (Mbbl)	High (Mbbl)	Low (Mbbl)	Best (Mbbl)	High (Mbbl)	Low (Mbbl)	Best (Mbbl)	High (Mbbl)	Low (Mbbl)	Best (Mbbl)	High (Mbbl)
Australia	17,143	2,650	6,800	10,800	-	-	-	2,650	6,800	10,800	-	-	-
Canada	37,825	33,118	52,774	70,961	1,843	107,438	273,092	28,596	44,534	57,903	1,628	84,979	208,046
France	46,779	6,425	16,995	25,496	-	-	-	6,138	16,013	24,019	-	-	-
Ireland	-	-	-	-	-	-	-	-	-	-	-	-	-
Netherlands	123	-	-	-	-	-	-	-	-	-	-	-	-
Total	101,870	42,193	76,569	107,257	1,843	107,438	273,092	37,384	67,347	92,722	1,628	84,979	208,046

	Gross	Gross						Net					
	Reserves	Contingent Resources			Prospective Resources			Contingent Resources			Prospective Resources		
Natural Gas	P+P (MMcf)	Low (MMcf)	Best (MMcf)	High (MMcf)	Low (MMcf)	Best (MMcf)	High (MMcf)	Low (MMcf)	Best (MMcf)	High (MMcf)	Low (MMcf)	Best (MMcf)	High (MMcf)
Australia	0	-	-	-	-	-	-	-	-	-	-	-	-
Canada	179,668	235,714	483,135	696,279	46,638	851,884	1,607,204	221,905	453,008	644,338	44,314	795,494	1,490,947
France	1,401	9,060	11,518	14,448	-	-	-	9,060	11,518	14,448	-	-	-
Ireland	127,033	5,336	11,357	36,381	-	-	-	5,336	11,357	36,381	-	-	-
Netherlands	69,883	-	-	-	-	-	-	-	-	-	-	-	-
Total	377,985	250,110	506,010	747,108	46,638	851,884	1,607,204	236,301	475,883	695,167	44,314	795,494	1,490,947

	Gross	Gross						Net					
	Reserves	Contingent Resources			Prospective Resources			Contingent Resources			Prospective Resources		
Total Oil Equivalent	P+P (Mboe)	Low (Mboe)	Best (Mboe)	High (Mboe)	Low (Mboe)	Best (Mboe)	High (Mboe)	Low (Mboe)	Best (Mboe)	High (Mboe)	Low (Mboe)	Best (Mboe)	High (Mboe)
Australia	17,143	2,650	6,800	10,800	-	-	-	2,650	6,800	10,800	-	-	-
Canada	67,770	72,403	133,295	187,009	9,617	249,418	540,959	65,580	120,035	165,293	9,013	217,562	456,538
France	47,012	7,935	18,915	27,904	-	-	-	7,648	17,933	26,427	-	-	-
Ireland	21,172	889	1,893	6,064	-	-	-	889	1,893	6,064	-	-	-
Netherlands	11,770	-	-	-	-	-	-	-	-	-	-	-	-
Total	164,867	83,877	160,903	231,777	9,617	249,418	540,959	76,767	146,661	208,584	9,013	217,562	456,538

Summary of Net Present Value of Future Net Revenues as at December 31, 2012 - Forecast Prices and Costs [2]

Contingent Resources			**Before Income Taxes, Discounted at (% per year)** [8]	
(M$)	**0%**	**5%**	**8%**	**10%**
Low Estimate (C1) [5]				
Australia	61,997	42,959	34,570	29,925
Canada	1,712,572	916,122	639,548	505,146
France	407,270	254,130	196,928	167,539
Ireland	11,326	7,172	5,525	4,668
Netherlands	-	-	-	-
Total Low Estimate	2,193,165	1,220,383	876,571	707,278
Best Estimate (C2) [6]				
Australia	425,329	313,355	263,812	236,225
Canada	3,406,612	1,888,778	1,362,746	1,106,275
France	1,048,302	596,063	443,433	368,654
Ireland	56,139	26,608	16,563	11,774
Netherlands	-	-	-	-
Total Best Estimate	4,936,382	2,824,804	2,086,554	1,722,928
High Estimate (C3) [7]				
Australia	851,871	623,288	523,927	469,059
Canada	5,305,454	2,945,112	2,149,158	1,764,334
France	1,831,541	1,014,848	761,127	639,965
Ireland	288,983	107,560	57,142	35,814
Netherlands	-	-	-	-
Total High Estimate	8,277,849	4,690,808	3,491,354	2,909,172

Prospective Resources			**Before Income Taxes, Discounted at (% per year)** [8]	
(M$)	**0%**	**5%**	**8%**	**10%**
Low Estimate (Pr1) [5]				
Australia	-	-	-	-
Canada	143,088	73,319	50,068	39,096
France	-	-	-	-
Ireland	-	-	-	-
Netherlands	-	-	-	-
Total Low Estimate	143,088	73,319	50,068	39,096
Best Estimate (Pr2) [6]				
Australia	-	-	-	-
Canada	4,766,626	1,963,420	1,152,054	800,693
France	-	-	-	-
Ireland	-	-	-	-
Netherlands	-	-	-	-
Total Best Estimate	4,766,626	1,963,420	1,152,054	800,693
High Estimate (Pr3) [7]				
Australia	-	-	-	-
Canada	21,714,243	10,061,738	6,736,117	5,263,776
France	-	-	-	-
Ireland	-	-	-	-
Netherlands	-	-	-	-
Total High Estimate	21,714,243	10,061,738	6,736,117	5,263,776

Notes:

(1) The contingent resource assessments were prepared in accordance with the definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook and NI 51-101. Contingent resource is defined in the Canadian Oil and Gas Evaluation Handbook as those quantities of petroleum estimated to be potentially recoverable from known accumulations using established technology or technology under development, but which do not currently qualify as reserves or commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. Prospective resource is defined in the Canadian Oil and Gas Evaluation Handbook are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. There is no certainty that it will be commercially viable to produce any portion of the resources.

(2) The forecast price and cost assumptions utilized in the year-end 2012 reserves report were also utilized by GLJ in preparing the contingent resource and prospective resource assessments. See "GLJ December 31, 2012 Forecast Prices" in this Annual Information Form.

(3) Proved plus probable gross reserve volumes are based on the year-end 2012 reserves report.

(4) GLJ prepared the estimates of contingent and prospective resources shown for each property using deterministic principles and methods. Probabilistic aggregation of the low and high property estimates shown in the table might produce different total volumes than the arithmetic sums shown in the table.

(5) Low estimate is considered to be a conservative estimate of the quantity of contingent (C1) or prospective (Pr1) resources that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. Those contingent or prospective resources at the low end of the estimate range have the highest degree of certainty - a 90% confidence level - that the actual quantities recovered will be equal or exceed the estimate.

(6) Best estimate is considered to be the best estimate of the quantity of contingent (C2) or prospective (Pr2) resources that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. Those contingent or prospective resources that fall within the best estimate have a 50% confidence level that the actual quantities recovered will be equal or exceed the estimate.

(7) High estimate is considered to be an optimistic estimate of the quantity of contingent (C3) or prospective (Pr3) resources that will actually be recovered. It is unlikely that the actual remaining quantities of contingent or prospective resources recovered will meet or exceed the high estimate. Those contingent or prospective resources at the high end of the estimate range have a lower degree of certainty - a 10% confidence level - that the actual quantities recovered will equal or exceed the estimate.

(8) The net present value of future net revenue attributable to the contingent or prospective resources does not necessarily represent the fair market value of the contingent or prospective resources. Estimated abandonment and reclamation costs have been included in the evaluation.

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

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 1,208 in Canada, 568 in France, 61 in the Netherlands, 20 in Australia and one in Ireland.

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

Country	Undiscounted (M$)	Discounted 10% (M$)
Australia	29,665	11,995
Canada	35,528	11,411
France	174,730	36,684
Ireland	8,594	3,159
Netherlands	38,294	23,712
Total	286,811	86,961

Costs associated with abandonment of surface facilities, well site reclamation, pipeline abandonments, non-producing wells and reclamation costs, not including downhole costs listed above, were estimated by management of the Company as:

Country	Facilities Undiscounted (M$)	Discounted 10% (M$)
Australia	137,466	30,360
Canada	92,753	28,100
France	65,796	12,209
Ireland	20,101	4,397
Netherlands	91,529	51,206
Total	407,645	126,272

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

Country	Undiscounted (M$)	Discounted 10% (M$)
Australia	-	-

Canada	1,753	1,517
France	3,175	2,662
Ireland	-	-
Netherlands	9,426	8,038
Total	14,354	12,217

Tax Information

Vermilion pays current taxes in France, the Netherlands and Australia. Corporate income taxes in France and the Netherlands apply to taxable income after eligible deductions. In France, taxable income is taxed at a rate of approximately 34.4%, plus an additional profit tax of 1.7% levied from 2012 to 2014 if annual gross revenues exceed 250 million Euros. In the Netherlands, taxable income is taxed at a rate of approximately 46%. As a function of the impact of Vermilion's Canadian tax pools, the Company does not presently pay current taxes in Canada. The Canadian segment includes holding companies that pay current taxes in foreign jurisdictions.

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

(M$)	Oil and Gas Assets	Tax Losses (4)	Other	Total
Australia	220,641(1)	-	-	220,641
Canada	802,741(1)	418,927	19,062	1,240,730
France	289,430(2)	35,059	-	324,489
Ireland	670,841(4)	186,724	-	857,565
Netherlands	30,475(3)	-	-	30,475
Total	2,014,128	640,710	19,062	2,673,900

Notes:
(1)Deduction calculated using various declining balance rates.
(2)Deduction calculated using a combination of straight-line over the assets life and unit of production method.
(3)Deduction calculated using a unit of production method.
(4)Development expenditures and losses are deductible at 100% against taxable income.

Production Estimates

The following table sets forth the volume of production estimated for the year 2013 as reflected in the estimates of gross proved reserves and gross proved plus probable reserves:

	Light and Medium Oil (bbl/d)	Heavy Oil (bbl/d)	Natural Gas (Mcf/d)	Natural Gas Liquids (bbl/d)	BOE (boe/d)
Australia					
Proved	5,561	-	-	-	5,561
Proved Plus Probable	7,971	-	-	-	7,971
Canada					
Proved	6,926	9	37,017	1,294	14,399
Proved Plus Probable	8,559	9	40,342	1,414	16,706
France					
Proved	10,172	-	3,774	-	10,801
Proved Plus Probable	10,645	-	3,838	-	11,285
Ireland					
Proved	-	-	-	-	-
Proved Plus Probable	-	-	-	-	-
Netherlands					
Proved	-	-	33,970	58	5,720
Proved Plus Probable	-	-	42,666	72	7,183
Total Proved	22,659	9	74,760	1,352	36,481
Total Proved Plus Probable	27,176	9	86,845	1,487	43,146

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 2012. Light and medium oil average net prices received in the following table also includes immaterial amounts generated by the sale of heavy oil.

	Three Months Ended March 31, 2012	Three Months Ended June 30, 2012	Three Months Ended September 30, 2012	Three Months Ended December 31, 2012
Australia				
Average Daily Production				
Light and Medium Oil (bbl/d)	6,648	6,970	5,958	5,873
Natural Gas (MMcf/d)	-	-	-	-
Natural Gas Liquids (bbl/d)	-	-	-	-
Average Net Prices Received				
Light and Medium Oil ($/bbl)	156.43	129.94	114.44	115.22
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/bbl)	-	-	-	-
Royalties [(1)]				
Light and Medium Oil ($/bbl)	-	-	-	-
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/bbl)	-	-	-	-
Production Costs				
Light and Medium Oil ($/bbl)	23.27	21.68	24.62	24.97
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/bbl)	-	-	-	-
Netback Received				
Light and Medium Oil ($/bbl)	133.16	108.26	89.82	90.25
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/bbl)	-	-	-	-
Canada				
Average Daily Production				
Light and Medium Oil (bbl/d)	7,574	7,757	7,322	7,983
Natural Gas (MMcf/d)	41.83	41.32	35.54	31.41
Natural Gas Liquids (bbl/d)	1,302	1,321	1,204	1,106
Average Net Prices Received				
Light and Medium Oil ($/bbl)	91.78	84.02	83.40	83.32
Natural Gas ($/Mcf)	2.15	2.13	2.52	3.53
Natural Gas Liquids ($/bbl)	76.65	63.44	61.92	59.92
Royalties				
Light and Medium Oil ($/bbl)	8.96	8.75	7.90	7.53
Natural Gas ($/Mcf)	0.04	-	0.06	0.14
Natural Gas Liquids ($/bbl)	22.36	16.96	14.16	14.33
Transportation				
Light and Medium Oil ($/bbl)	1.75	2.20	1.96	1.64
Natural Gas ($/Mcf)	0.17	0.16	0.15	0.18
Natural Gas Liquids ($/bbl)	1.76	1.69	1.69	1.86
Production Costs				
Light and Medium Oil ($/bbl)	10.75	9.51	10.75	9.08
Natural Gas ($/Mcf)	1.53	1.49	1.59	2.20
Natural Gas Liquids ($/bbl)	8.63	7.52	8.85	14.71
Netback Received				
Light and Medium Oil ($/bbl)	70.32	63.56	62.79	65.07
Natural Gas ($/Mcf)	0.41	0.48	0.72	1.01
Natural Gas Liquids ($/bbl)	43.90	37.27	37.22	29.02

France				
Average Daily Production				
Light and Medium Oil (bbl/d)	10,270	9,931	9,767	9,843
Natural Gas (MMcf/d)	3.48	3.57	3.39	3.91
Natural Gas Liquids (bbl/d)	-	-	-	-
Average Net Prices Received				
Light and Medium Oil ($/bbl)	107.67	105.96	107.49	104.78
Natural Gas ($/Mcf)	9.13	12.60	9.96	11.47
Natural Gas Liquids ($/bbl)	-	-	-	-
Royalties				
Light and Medium Oil ($/bbl)	5.80	5.87	5.63	5.56
Natural Gas ($/Mcf)	0.21	0.26	0.28	0.27
Natural Gas Liquids ($/bbl)	-	-	-	-
Transportation				
Light and Medium Oil ($/bbl)	2.83	2.21	1.99	2.32
Natural Gas ($/Mcf)	-	-	-	-
Natural Gas Liquids ($/bbl)	-	-	-	-
Production Costs				
Light and Medium Oil ($/bbl)	15.36	15.45	12.21	16.73
Natural Gas ($/Mcf)	2.35	1.61	3.44	1.00
Natural Gas Liquids ($/bbl)	-	-	-	-
Netback Received				
Light and Medium Oil ($/bbl)	83.68	82.43	87.66	80.17
Natural Gas ($/Mcf)	6.57	10.73	6.24	10.20
Natural Gas Liquids ($/bbl)	-	-	-	-
Netherlands				
Average Daily Production				
Light and Medium Oil (bbl/d)	-	-	-	-
Natural Gas (MMcf/d)	35.08	33.74	34.59	33.03
Natural Gas Liquids (bbl/d)	72	84	41	70
Average Net Prices Received				
Light and Medium Oil ($/bbl)	-	-	-	-
Natural Gas ($/Mcf)	9.75	9.55	9.44	10.08
Natural Gas Liquids ($/bbl)	108.25	94.74	94.66	98.89
Production Costs				
Light and Medium Oil ($/bbl)	-	-	-	-
Natural Gas ($/Mcf)	1.29	1.78	1.22	1.88
Natural Gas Liquids ($/bbl)	-	-	-	-
Netback Received				
Light and Medium Oil ($/bbl)	-	-	-	-
Natural Gas ($/Mcf)	8.46	7.77	8.22	8.20
Natural Gas Liquids ($/bbl)	108.25	94.74	94.66	98.89
Total				
Average Daily Production				
Light and Medium Oil (bbl/d)	24,492	24,658	23,047	23,699
Natural Gas (MMcf/d)	80.39	78.63	73.52	68.34
Natural Gas Liquids (bbl/d)	1,374	1,405	1,245	1,176
Average Net Prices Received				
Light and Medium Oil ($/bbl)	115.99	102.39	102.58	98.69
Natural Gas ($/Mcf)	5.77	5.79	6.12	7.15
Natural Gas Liquids ($/bbl)	78.30	65.32	63.00	62.23
Royalties				
Light and Medium Oil ($/bbl)	5.20	5.83	4.57	5.18
Natural Gas ($/Mcf)	0.03	0.01	0.04	0.08
Natural Gas Liquids ($/bbl)	21.19	15.94	13.70	13.48
Transportation Costs				
Light and Medium Oil ($/bbl)	1.73	1.80	1.37	1.59
Natural Gas ($/Mcf) [2]	0.36	0.36	0.35	0.35
Natural Gas Liquids ($/bbl)	1.67	1.59	1.64	1.75
Production Costs				
Light and Medium Oil ($/bbl)	16.08	14.43	15.59	15.47
Natural Gas ($/Mcf)	1.46	1.62	1.50	1.98
Natural Gas Liquids ($/bbl)	8.18	7.06	8.56	13.84
Netback Received				
Light and Medium Oil ($/bbl)	92.98	80.33	81.05	76.45
Natural Gas ($/Mcf)	3.92	3.80	4.23	4.74
Natural Gas Liquids ($/bbl)	47.26	40.73	39.10	33.16

Notes:

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

(2) Includes Ireland transportation costs

Marketing

The nature of Vermilion's operations results in exposure to fluctuations in commodity prices, interest rates and foreign currency exchange rates. Vermilion monitors and, when appropriate, uses derivative financial instruments to manage its exposure to these fluctuations. All transactions of this nature entered into by Vermilion are related to an underlying financial position or to future crude oil and natural gas production. Vermilion does not use derivative financial instruments for speculative purposes. Vermilion has elected not to designate any of its derivative financial instruments as accounting hedges and thus accounts for changes in fair value in net earnings at each reporting period. Vermilion has not obtained collateral or other security to support its financial derivatives as management reviews the creditworthiness of its counterparties prior to entering into derivative contracts.

During the normal course of business, Vermilion may enter into fixed price arrangements to sell a portion of its production or purchase commodities for operational use. Vermilion does not apply fair value accounting on these contracts as they were entered into and continue to be held for the sale of production or operational use in accordance with the Company's expected requirements.

The following table summarizes Vermilion's outstanding risk management positions as at December 31, 2012:

Risk Management - Oil	**Funded Cost (US $/bbl)**	**bbls/d**	**Strike Price(s) US $/bbl**
Swap - WTI			
January 2013 - June 2013 (1)	-	1,000	101.18
January 2013 - December 2013	-	2,000	93.04
Collar - WTI			
January 2013 - March 2013	-	650	85.00 - 97.65
April 2013 - June 2013	-	250	88.00 - 109.43
Collar - Dated Brent			
January 2013 - March 2013	-	1,550	103.97 - 118.81
January 2013 - March 2013	1.00	250	95.00 - 132.15
January 2013 - June 2013	-	2,000	90.00 - 105.28
January 2013 - December 2013	-	3,500	96.14 - 107.34
April 2013 - June 2013	-	250	105.00 - 114.65
July 2013 - December 2013	-	500	95.00 - 109.10

Risk Management - Natural Gas	**Funded Cost ($/GJ)**	**GJ/d**	**Strike Price(s) $/GJ**
Collar - AECO (Physical)			
April 2012 - March 2014	0.10	5,500	2.60 - 3.78
June 2012 - March 2014	0.10	3,000	2.30 - 3.75

Note:

(1) The counterparties to the swaps have the option on June 28, 2013 to extend the swap to December 31, 2013 at the contracted volume and price.

From time to time Vermilion enters into new risk management positions. Information regarding outstanding risk management positions is available on Vermilion's website at www.vermilionenergy.com/ir/hedging.cfm.

ADDITIONAL INFORMATION RESPECTING VERMILION ENERGY INC.

Management

Vermilion has a board of directors currently consisting of eight individuals. The directors are nominated by the Company and elected annually at the direction of Shareholders by ordinary resolution, and hold office until the next meeting of Shareholders (unless otherwise ceasing to act as a director prior to such meeting). As at February 28, 2013, the directors and officers of Vermilion, as a group, beneficially owned, or controlled or directed, directly or indirectly, 4,162,364 common shares representing approximately 4.2% 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 2009 to February 2011, Director of Realex Properties Corp., a public real estate company
Claudio A. Ghersinich (2) (4) (5) Calgary, Alberta, Canada	Director	1994	Since 2005, President of Carrera Investments Corp., a private investment company
Joseph F. Killi (2) (3) Calgary, Alberta, Canada	Director	1999	Since 2008, President and Chief Executive Officer and director of Wilmington Capital Management Inc., a public investment company. January 2011 to December 2011, Executive Chairman of Parkbridge Lifestyle Communities Inc., a private real estate company 2005 to January 2011, Executive Chairman of Parkbridge Lifestyle Communities Inc., a public real estate company 2005 to February 2011, Vice Chairman of Realex Properties Corp., a public real estate company Since 1993, President of Rosebridge Capital Corp. Inc., a private real estate investment company
Loren M. Leiker (5) Houston, Texas, USA	Director	2012	Since 2011, Director for SM Energy and Midstates Petroleum 2008 to 2011, Senior Executive VP Exploration, EOG Resources
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	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	Since December 2011, Executive Chair or Anatolia Energy Corp., a public oil and gas company 2009 to present, Adjunct Professor of Strategy and Energy Geopolitics, Haskayne School of Business 2007 to 2009, Vice President, Middle East Business Development for BP International

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
Anthony Marino Calgary, Alberta, Canada	Executive Vice President and Chief Operating Officer	Since May 2012, Executive Vice President and Chief Operating Officer of Vermilion
		2009 to 2012, Director, President & CEO, Baytex Energy Corporation
		2004 to 2008, Chief Operating Officer, Baytex Energy Corporation
Mona Jasinski Calgary, Alberta, Canada	Executive Vice President People	Since 2011, Executive Vice President People of Vermilion
		2009 to 2011, Vice President People of Vermilion
		2004 to 2009, HR Manager, Shell Onshore Production, North America
Terry Hergott Calgary, Alberta, Canada	Vice President Marketing	Since April 2012, Vice President, Marketing of Vermilion
		1996 to 2012, Canadian Supply & Trading Manager **,** Marathon Petroleum Corp.
Gerard Schut Den Haag, The Netherlands	Vice President European Operations	Since July 2012, Vice President European Operations
		August 2006 to May 2012, General Manager, Chevron Exploration and Production Netherlands
Robert J. Engbloom, Q.C. Calgary, Alberta, Canada	Corporate Secretary	Since January 1, 2012, partner with and Deputy Chair of Norton Rose Canada LLP, a law firm
		1999 to 2011, partner with Macleod Dixon LLP, a law firm

Common Shares

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

Cash Dividends

The Company expects to pay dividends on a monthly basis. 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 net 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. From the January 15, 2008 payment date and onwards, Vermilion had paid distributions/dividends of $0.19 per Trust Unit /common share per month. In January 2013, Vermilion increased its dividend payments to $0.20 per share from $0.19 per share. The increase became effective for the January 2013 dividend paid on February 15, 2013.

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

Period		Dividend Amount for Period per Common Share
As Vermilion Energy Inc.		
2010 – September to December (1)	$	0.57
2011 – January to December	$	2.28
2012 – January to December	$	2.28
2013 – January to February	$	0.40
Total cash dividends since January 22, 2003	$	21.85

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.

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 contrary to applicable laws.

Shareholder Rights Plan

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

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

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

(c) make reasoned recommendations to the Shareholders.

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

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

Summary of the Plan

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

Term

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

Issue of Rights

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

Rights Exercise Privilege

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

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

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

Permitted Lock-Up Agreement

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

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

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

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

Certificates and Transferability

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

Permitted Bid Requirements

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

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

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

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

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

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

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

Waiver and Redemption

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

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

Exemptions for Investment Advisors

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

Board of Directors

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

Amendment

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

AUDIT COMMITTEE MATTERS

Audit Committee Charter

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

Composition of the Audit Committee

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

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

External Audit Service Fees

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

During the years ended December 31, 2012 and 2011, Deloitte LLP, the auditors of the Company, received the following fees from the Company:

Item	2012	2011
Audit fees (1)	$ 1,298,619	$ 962,898
Audit-related fees (2)	$ 74,375	$ 107,500
Tax fees (3)	-	$ 21,665
All other fees (4)	-	$ 27,342

Notes:

(1) Audit fees consisted of professional services rendered by Deloitte LLP for the audit of the Company's financial statements for the years ended December 31, 2012 and 2011.

(2) Audit-related fees consist of fees for the review of the quarterly financial statements, services provided in connection with statutory and regulatory filings or engagements and fees for review services related to non-routine regulatory filings such as short-form prospectus and business acquisition reports. Fees also include services related to review of accounting research in regards to the adoption of IFRS.

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

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

MARKET FOR PRICE RANGE AND TRADING VOLUME OF SECURITIES

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

2012	High	Low	Close	Volume
January	$ 47.86	$ 44.26	$ 46.00	3,626,063
February	$ 49.47	$ 44.64	$ 48.65	3,433,722
March	$ 49.40	$ 45.84	$ 46.01	4,141,593
April	$ 48.12	$ 44.88	$ 47.90	4,594,964
May	$ 48.48	$ 41.44	$ 43.48	5,134,880
June	$ 46.21	$ 41.27	$ 45.97	4,462,769
July	$ 48.00	$ 44.85	$ 46.75	2,905,615
August	$ 47.71	$ 44.22	$ 44.91	3,421,766
September	$ 47.01	$ 44.25	$ 46.20	3,319,544
October	$ 48.27	$ 44.93	$ 47.75	3,247,349
November	$ 50.54	$ 46.27	$ 50.54	3,387,754
December	$ 51.97	$ 49.37	$ 51.97	4,929,114

2013	High	Low	Close	Volume
January	$ 52.50	$ 50.26	$ 51.16	4,706,164
February	$ 53.39	$ 50.55	$ 53.37	2,881,906

Awards (entitling the holder thereof to receive common shares) have been issued under the Vermilion Incentive Plan. See the note regarding equity compensation plans in Vermilion's annual financial statements for further details regarding the amount and value of such awards.

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 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, 2012, 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 8, 2013.

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 LLP is the auditor of the Company and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

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. Additional risks and uncertainties not currently known to Vermilion that it currently views as immaterial may also materially and adversely affect its business, financial condition and/or results of operations. Shareholders and potential Shareholders should consider carefully the information contained herein and, in particular, the following risk factors.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of proved and probable reserves and future net revenues to be derived therefrom, including many factors beyond the Company's control. The reserve and future net revenue information set forth in this annual information form represents estimates only. The reserves and estimated future net cash flow from the Company's properties have been independently evaluated by GLJ with an effective date of December 31, 2012. 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.

Uncertainty of Contingent Resource Estimates

Information regarding quantities of contingent resources included in this Annual Information Form are estimates only. References to "contingent resources" do not constitute, and should be distinguished from, references to "reserves". The same uncertainties inherent in estimating quantities of reserves apply to estimating quantities of contingent resources. In addition, there are contingencies that prevent resources from being classified as reserves. There is no certainty that it will be commercially viable to produce any portion of the contingent resources due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. Actual results may vary significantly from these estimates and such variances could be material.

Uncertainty of Prospective Resource Estimates

Information regarding quantities of prospective resources included in this Annual Information Form are estimates only. References to "prospective resources" do not constitute, and should be distinguished from, references to "reserves". References to "prospective resources" do not constitute, and should be distinguished from, references to "contingent resources". The same uncertainties inherent in estimating quantities of reserves apply to estimating quantities of prospective resources. In addition, prospective resources are undiscovered which prevents resources from being classified as reserves. Also, in the event of discovery, there may be contingencies that prevent resources from being classified as reserves. There is no certainty of discovery and is there is no certainty that it will be commercially viable to produce any portion of the prospective resources. Actual results may vary significantly from these estimates and such variances could be material.

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 materially during recent years and are determined by supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions. Any decline in oil and natural gas prices could have an adverse effect on Vermilion's cash flow which could have the effect of decreasing dividends.

Changes in Legislation

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

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

Government Regulations

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

Competition

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

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

Operational Matters

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

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

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

Environmental Concerns

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

Kyoto Protocol and Carbon Tax

Australia, Canada, France, Ireland and the Netherlands are signatories to the United Nations Framework Convention on Climate Change and have all ratified the Kyoto Protocol established thereunder. Australia, France, Ireland and the Netherlands, as Annex B parties to the Kyoto Protocol, and Ireland, France and Netherlands as members of the European Union, are required to reduce their nation-wide emissions of carbon dioxide, methane, nitrous oxide and other greenhouse gases. Canada formally withdrew from the Kyoto Protocol effective 2012. The Canadian federal government has indicated an intention to regulate the emissions of greenhouse gases from a range of industries and has outlined a number of policies to reduce the greenhouse gas emissions intensity of regulated facilities (the "Federal Plan"). The Federal Plan also includes proposed requirements to be implemented by the Canadian federal government which would govern the emission of industrial air pollutants. Certain of the proposed requirements include fixed emissions caps, an emissions credit trading system, and several options from which companies can choose to meet their greenhouse gas emissions reduction targets. At present, the status of its proposals is unclear. The Canadian federal government has repeatedly stated that it intends to align Canada's greenhouse gas emissions reduction policies with those of the United States, and it is willing to wait until the United States has developed its framework before implementing any policies in Canada. As such, it is unclear when, or in what form, the Federal Plan will be implemented.

On July 1 2012, the Australian government established a carbon price for emissions of the following greenhouse gases – carbon dioxide, methane, nitrous oxide and certain perfluorocarbons attributable to aluminium smelting. The price is levied per tonne of carbon dioxide equivalent (CO_2e) emissions[1]. The carbon price is fixed at AUD$23 per tonne of CO_2e in 2012 / 2013, AUD$24.15 in 2013 / 2014 and AUD$25.40 in 2014 / 2015. From July 1, 2015, the price will be set by the market. A price ceiling will be in place from July 1, 2015 to June 30, 2018, and will be initially set at AUD$20 above the expected international price. The price ceiling will then rise in real terms at five percent per year. The carbon price applies where direct CO_2e emissions exceed a threshold of 25,000 tonnes per annum. After June 30, 2018, the price ceiling will no longer exist and the price will be dictated entirely by the market. Vermilion continues to evaluate and monitor emissions in Australia and expects costs to be approximately AUD$1.5 million per year.

Vermilion's exploration and production facilities and other operations and activities in Canada, Australia, 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. As such, Vermilion continues to evaluate and monitor regulatory initiatives and overall trends so that it is aware of potential developments that could affect its business and operations. It is possible that future international and national emissions reduction requirements in jurisdictions that Vermilion operates in may require further reductions of emissions or emissions intensity. The direct or indirect costs of complying with emissions regulations may adversely affect the business of Vermilion in Canada, Australia, France, Ireland and the Netherlands.

(1) The carbon dioxide (CO2) equivalent of any greenhouse gas is the amount of carbon dioxide that would cause the same amount of global warming. For example; methane has a global warming effect 21 times stronger than CO2. Therefore 1 tonne of methane is equivalent to 21 tonnes of CO2.

Discretionary Nature of Dividends

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

Debt Service

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

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

Changes in Income Tax Laws

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

Depletion of Reserves

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

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

Net Asset Value

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

Volatility of Market Price of Common Shares

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

Variations in Interest Rates and Foreign Exchange Rates

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

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

Increase in Operating Costs or Decline in Production Level

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

Acquisition Assumptions

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

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

Failure to Realize Anticipated Benefits of Prior Acquisitions

Vermilion has completed several acquisitions since December 31, 2010 that were completed to strengthen its position in the oil and natural gas industry and to create the opportunity to realize certain benefits, including, among other things, potential cost savings. In order to achieve the benefits of these and future acquisitions, Vermilion will be dependent upon its ability to successfully consolidate functions and integrate operations, procedures and personnel in a timely and efficient manner and to realize the anticipated growth opportunities and synergies from combining the acquired assets and operations with those of the Company. The integration of acquired assets and operations requires the dedication of management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters during the process. The integration process may result in the disruption of ongoing business and customer relationships that may adversely affect Vermilion's ability to achieve the anticipated benefits of such prior acquisitions.

Additional Financing

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

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

Potential Conflicts of Interest

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

Accounting Adjustments

The presentation of financial information in accordance with IFRS 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 consolidated financial statements. Such non-cash charges and write-downs may be viewed unfavourably by the market and may result in an inability to borrow funds and/or may result in a decline in the Common Share price.

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

Market Accessibility

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

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

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com. Additional information related to the remuneration and indebtedness of the directors and officers of the Company, and the principal holders of common shares and Rights to purchase common shares and securities authorized for issuance under the Company's equity compensation plans, where applicable, are contained in the information circular of the Company in respect of its most recent annual meeting of Shareholders involving the election of directors. Additional financial information is provided in the Company's audited financial statements and management's discussion and analysis for the year ended December 31, 2012.

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

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

1. We have evaluated the Company's reserves data as at December 31, 2012. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2012, estimated using forecast prices and costs.

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

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

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

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2012, 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 14, 2013	Australia	-	656,483	-	656,483
GLJ Petroleum Consultants	February 14, 2013	Canada	-	1,098,424	-	1,098,424
GLJ Petroleum Consultants	February 14, 2013	France	-	1,506,818	-	1,506,818
GLJ Petroleum Consultants	February 14, 2013	Ireland	-	448,598	-	448,598
GLJ Petroleum Consultants	February 14, 2013	Netherlands	-	356,621	-	356,621
Total			-	4,066,944	-	4,066,944

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

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

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

EXECUTED as to our reports referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, February 14, 2013

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

GLJ Petroleum Consultants

REPORT ON RESOURCES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR

To the board of directors of Vermilion Energy Inc. (the "Company"):

1. We have evaluated the Company's resources data as at December 31, 2012. The resources data are estimates of low, best and high estimates of contingent resources and prospective resources and related future net revenue as at December 31, 2012, estimated using forecast prices and costs.

2. The resources data are the responsibility of the Company's management. Our responsibility is to express an opinion on the resources 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 resources data are free of material misstatement. An evaluation also includes assessing whether the resources data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue of the Company (before deduction of income taxes) attributed to best estimate contingent resources and prospective resources estimated using forecast prices and costs and calculated using a discount rate of 10 percent, evaluated by us for the year ended December 31, 2012, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

Contingent Resources

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 14, 2013	Australia	-	236,225	-	236,225
GLJ Petroleum Consultants	February 14, 2013	Canada	-	1,106,275	-	1,106,275
GLJ Petroleum Consultants	February 14, 2013	France	-	368,654	-	368,654
GLJ Petroleum Consultants	February 14, 2013	Ireland	-	11,774	-	11,774
Total			-	1,722,928	-	1,722,928

Prospective Resources

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 14, 2013	Canada	-	800,692	-	800,692
Total			-	800,692	-	800,692

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

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

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

8. These resource estimates are not classified as reserves at this time, pending further reservoir delineation, project application, facility and reservoir design work. Contingent resources entail commercial risk not applicable to reserves, which have not been included in the net present valuation. Prospective resources entail discovery risk and commercial risk not applicable to reserves, neither of which have been included in the net present valuation. There is no certainty that it will be commercially viable to produce any portion of the resources.

EXECUTED as to our report referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, February 14, 2013

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

GLJ Petroleum Consultants

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

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

Management of Vermilion Energy Inc. (the "Company") are responsible for the preparation and disclosure, or arranging for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2012, 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, 2012.

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 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.
2012 MANAGEMENT'S DISCUSSION AND ANALYSIS



ABBREVIATIONS

bbl(s)	barrel(s)
mbbls	thousand barrels
bbls/d	barrels per day
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
GJ	gigajoules
boe	barrel of oil equivalent, including: crude oil, natural gas liquids and natural gas on the basis of one boe for six mcf of natural gas
mboe	thousand barrel of oil equivalent
mmboe	million barrel of oil equivalent
boe/d	barrel of oil equivalent per day
NGLs	natural gas liquids
WTI	West Texas Intermediate, the reference price paid for crude oil of standard grade in U.S. dollars at Cushing, Oklahoma
AECO	the daily average benchmark price for natural gas at the AECO 'C' hub in southeast Alberta
$M	thousand dollars
$MM	million dollars
PRRT	Petroleum Resource Rent Tax, a profit based tax levied on petroleum projects in Australia

DISCLAIMER

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

- capital expenditures;
- business strategies and objectives;
- reserve quantities and the discounted present value of future net cash flows from such reserves;
- petroleum and natural gas sales;
- future production levels (including the timing thereof) and rates of average annual production growth;
- exploration and development plans;
- acquisition and disposition plans and the timing thereof;
- operating and other expenses, including the payment of future dividends;
- royalty and income tax rates;
- the timing of regulatory proceedings and approvals;
- the timing of first commercial natural gas; and the estimate of Vermilion's share of the expected natural gas production from the Corrib field.

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

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

Although Vermilion believes that the expectations reflected in such forward looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because Vermilion can give no assurance that such expectations will prove to be correct. Financial outlooks are provided for the purpose of understanding Vermilion's financial strength and business objectives and the information may not be appropriate for other purposes. Forward looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Vermilion and described in the forward looking statements or information. These risks and uncertainties include but are not limited to:

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

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

In accordance with National Instruments 51-101, natural gas volumes have been converted on the basis of six thousand cubic feet of natural gas to one barrel of oil equivalent. Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A"), dated February 28, 2013, of Vermilion Energy Inc.'s ("Vermilion" or the "Company") operating and financial results as at and for the year ended December 31, 2012 compared with the corresponding period in the prior year.

This discussion should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2012 and 2011, together with accompanying notes. Additional information relating to Vermilion, including its Annual Information Form, is available on SEDAR at www.sedar.com or on Vermilion's website at www.vermilionenergy.com.

The audited consolidated financial statements for the year ended December 31, 2012 and comparative information have been prepared in Canadian dollars, except where another currency has been indicated, and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

NON-GAAP MEASURES

This report includes non-GAAP measures as further described herein. These non-GAAP measures do not have standardized meanings prescribed by International Financial Reporting Standards ("IFRS" or, alternatively, "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 fund flows from operations per share to be key measures as they demonstrate Vermilion's ability to generate the cash necessary to pay dividends, repay debt, fund asset retirement obligations and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, fund flows from operations provides a useful measure of Vermilion's ability to generate cash that is not subject to short-term movements in non-cash operating working capital.

"Fund flows from operations (excluding the Corrib project)" represents fund flows from operations excluding expenses related to the Corrib project. Management believes that by excluding expenses related to the Corrib project, fund flows from operations (excluding the Corrib project) provides a useful measure of Vermilion's ability to generate cash from its current producing assets.

The most directly comparable GAAP measure to fund flows from operations and fund flows from operations (excluding the Corrib project) is cash flows from operating activities.

Cash flows from operating activities as presented in Vermilion's consolidated statements of cash flows are reconciled to fund flows from operations and fund flows from operations (excluding the Corrib project) as follows:

	Three Months Ended			% change		Year Ended		% change
($M)	Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	Q4/12 vs. Q3/12	Q4/12 vs. Q4/11	Dec 31, 2012	Dec 31, 2011	2012 vs. 2011
Cash flows from operating activities	**99,907**	148,301	158,639			**496,580**	447,092	
Changes in non-cash operating working capital	**33,406**	(13,175)	(29,315)			**47,409**	4,173	
Asset retirement obligations settled	**8,424**	1,968	7,559			**13,739**	23,071	
Fund flows from operations	**141,737**	137,094	136,883	3%	4%	**557,728**	474,336	18%
Expenses related to the Corrib project	**2,023**	2,171	2,619			**8,902**	10,472	
Fund flows from operations (excluding the Corrib project)	**143,760**	139,265	139,502	3%	3%	**566,630**	484,808	17%

"Cash dividends per share" represents cash dividends declared per share by Vermilion.

"Net dividends" are dividends declared less proceeds received by Vermilion for the issuance of shares pursuant to the dividend reinvestment plan, both as presented in Vermilion's consolidated statements of changes in shareholders' equity. Dividends both before and after the dividend reinvestment plan are reviewed by management and are assessed as a percentage of fund flows from operations to analyze the amount of cash that is generated by Vermilion which is being used to fund dividends. Dividends declared is the most directly comparable GAAP measure to net dividends.

"Total net dividends, capital expenditures and asset retirement obligations settled" are net dividends plus the following amounts from Vermilion's consolidated statements of cash flows: drilling and development, exploration and evaluation, and asset retirement obligations settled.

"Total net dividends, capital expenditures and asset retirement obligations settled (excluding the Corrib project)" are total net dividends, capital expenditures and asset retirement obligations settled excluding drilling and development and asset retirement obligations settled relating to the Corrib project.

Total net dividends, capital expenditures and asset retirement obligations settled and total net dividends, capital expenditures and asset retirement obligations settled (excluding the Corrib project) are reviewed by management and are assessed as a percentage of fund flows from operations and fund flows from operations (excluding the Corrib project) to analyze the amount of cash that is generated by Vermilion that is available to repay debt and fund potential future acquisitions and capital expenditures.

Dividends declared, total net dividends, capital expenditures and asset retirement obligations settled and total net dividends, capital expenditures and asset retirement obligations settled (excluding the Corrib project) are reconciled to their most directly comparable GAAP measures as follows:

	Three Months Ended			Year Ended	
($M)	**Dec 31, 2012**	**Sept 30, 2012**	**Dec 31, 2011**	**Dec 31, 2012**	**Dec 31, 2011**
Dividends declared	**56,435**	56,196	53,871	**223,717**	207,846
Issuance of shares pursuant to the dividend reinvestment plan	**(18,468)**	(17,251)	(16,802)	**(72,058)**	(59,081)
Net dividends	**37,967**	38,945	37,069	**151,659**	148,765
Drilling and development	**151,157**	96,212	129,478	**413,221**	411,227
Exploration and evaluation	**5,878**	10,043	22,773	**39,317**	79,553
Asset retirement obligations settled	**8,424**	1,968	7,559	**13,739**	23,071
Total net dividends, capital expenditures and asset retirement obligations settled	**203,426**	147,168	196,879	**617,936**	662,616
Capital expenditures and asset retirement obligations settled related to the Corrib project	**(18,092)**	(17,164)	(13,869)	**(58,666)**	(68,260)
Total net dividends, capital expenditures and asset retirement obligations settled (excluding the Corrib project)	**185,334**	130,004	183,010	**559,270**	594,356

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

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

	As At	
($M)	**Dec 31, 2012**	**Dec 31, 2011**
Long-term debt	**642,022**	373,436
Current liabilities	**355,711**	491,184
Current assets	**(320,502)**	(435,659)
Net debt	**677,231**	428,961

"Netbacks" are per boe and per mcf measures used in operational and capital allocation decisions.

"Diluted shares outstanding" is the sum of shares outstanding at the period end plus outstanding awards under Vermilion's equity based compensation plan, based on current estimates of future performance factors and forfeitures. The most directly comparable GAAP measure is shares outstanding.

Shares outstanding is reconciled to diluted shares outstanding as follows:

	As At		
('000s of shares)	**Dec 31, 2012**	**Sept 30, 2012**	**Dec 31, 2011**
Shares outstanding	**99,135**	98,729	96,430
Potential shares issuable pursuant to the equity based compensation plan	**2,778**	2,420	2,348
Diluted shares outstanding	**101,913**	101,149	98,778

2012 REVIEW AND 2013 GUIDANCE

The following table summarizes Vermilion's 2012 actual results as compared to guidance and Vermilion's 2013 guidance:

	Date	Capital Expenditures ($MM)	Production (boe/d)
2012 Guidance	December 21, 2011	375	37,000 to 38,000
2012 Guidance (Update)	May 4, 2012	450	37,000 to 38,000
2012 Guidance (Update)	November 1, 2012	465	37,000 to 38,000
2012 Guidance (Update)	November 14, 2012	450	37,000 to 38,000
2012 Actual	February 28, 2013	453	37,803
2013 Guidance	November 14, 2012	485	39,000 to 40,500

On May 4, 2012, concurrent with the release of first quarter 2012 operating and financial results, Vermilion announced an increase to its 2012 planned capital expenditures to approximately $450 million, a 20% increase from its previous budget of $375 million announced in December 2011. The additional capital was primarily targeted at Cardium drilling and completions.

On November 1, 2012, concurrent with the release of third quarter 2012 operating and financial results, Vermilion updated its 2012 capital expenditure guidance to $465 million, subject to variability with respect to timing of the Company's Australian drilling activities. However, as a result of delays in the arrival of our Australian drilling rig, the Company announced a revision in the 2012 capital expenditure guidance to $450 million on November 14, 2012.

OPERATIONAL ACTIVITIES

Canada

Vermilion drilled 76 (54.7 net) wells during 2012, including 59 (47.5 net) operated Cardium horizontal wells and 13 (4.0 net) non-operated Cardium wells. The Company also drilled three (3 net) vertical appraisal wells in the Duvernay trend. Fourth quarter 2012 activity comprised the drilling of 25 (16.7 net) Cardium wells and the drilling of our second Duvernay test well.

France

Vermilion completed a number of workovers in both the Paris and Aquitaine Basins. Further work included the dry-docking and structural overhaul of our Parentis workover barge, which was returned to water in late December. The Company also re-commissioned two oil tanks, one on the Chaunoy battery and the other on the Vic Bihl battery associated with the Company's January 2012 acquisition.

Netherlands

In 2012, Vermilion drilled two (1.4 net) new wells, Vinkega-2 and Eernwoude-2. The Eernwoude-2 well was subsequently brought on production late in the fourth quarter of 2012. During the fourth quarter, the Company also received necessary partner approvals and initiated a debottlenecking project at Garijp, planned for completion during the second quarter of 2013, that is expected to enable production additions from the Vinkega-2 well to be brought on-stream. During the second quarter of 2012, Vermilion completed the tie-in of the De Hoeve-1 exploration well (drilled in 2009) and initiated production from the Rotliegend zone. Pipeline construction for the Company's Langezwaag-1 well (drilled in the fourth quarter of 2011) was completed late in 2012 and the well is expected to come on production following the anticipated completion of surface facilities in the second quarter of 2013. In December, Vermilion was awarded the exploration license for the Opmeer concession located directly west of the Company's existing Slootdorp concession.

Australia

The two well drilling program at Wandoo which was originally planned for late 2012 was deferred into 2013 due to late receipt of the drilling rig. During the second half of 2012, Vermilion completed both planned annual maintenance and unplanned equipment repairs which led to higher than normal downtime.

PRODUCTION

	Three Months Ended			% change		Year Ended		% change
	Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	Q4/12 vs. Q3/12	Q4/12 vs. Q4/11	Dec 31, 2012	Dec 31, 2011	2012 vs. 2011
Canada								
Crude oil & NGLs (bbls/d)	**9,089**	8,526	7,837	7%	16%	**8,891**	5,998	48%
Natural gas (mmcf/d)	**31.41**	35.54	43.96	(12)%	(29)%	**37.50**	43.38	(14)%
Total (boe/d)	**14,323**	14,449	15,163	(1)%	(6)%	**15,142**	13,227	14%
% of consolidated	**40%**	40%	41%			**40%**	38%	
France								
Crude oil (bbls/d)	**9,843**	9,767	7,819	1%	26%	**9,952**	8,110	23%
Natural gas (mmcf/d)	**3.91**	3.39	0.94	15%	316%	**3.59**	0.95	278%
Total (boe/d)	**10,495**	10,333	7,976	2%	32%	**10,550**	8,269	28%
% of consolidated	**29%**	28%	22%			**28%**	23%	
Netherlands								
NGLs (bbls/d)	**70**	41	66	71%	6%	**67**	58	16%
Natural gas (mmcf/d)	**33.03**	34.59	34.58	(5)%	(4)%	**34.11**	32.88	4%
Total (boe/d)	**5,574**	5,806	5,829	(4)%	(4)%	**5,751**	5,538	4%
% of consolidated	**15%**	16%	16%			**15%**	16%	
Australia								
Crude oil (bbls/d)	**5,873**	5,958	7,686	(1)%	(24)%	**6,360**	8,168	(22)%
% of consolidated	**16%**	16%	21%			**17%**	23%	
Consolidated								
Crude oil & NGLs (bbls/d)	**24,875**	24,292	23,408	2%	6%	**25,270**	22,334	13%
% of consolidated	**69%**	66%	64%			**67%**	63%	
Natural gas (mmcf/d)	**68.34**	73.52	79.48	(7)%	(14)%	**75.20**	77.21	(3)%
% of consolidated	**31%**	34%	36%			**33%**	37%	
Total (boe/d)	**36,265**	36,546	36,654	(1)%	(1)%	**37,803**	35,202	7%

(boe/d)	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Canada	**14,323**	14,449	15,965	15,848	15,163	12,987	12,426	12,304
France	**10,495**	10,333	10,526	10,850	7,976	8,108	8,419	8,582
Netherlands	**5,574**	5,806	5,707	5,919	5,829	5,589	5,682	5,039
Australia	**5,873**	5,958	6,970	6,648	7,686	7,992	8,692	8,309
Consolidated	**36,265**	36,546	39,168	39,265	36,654	34,676	35,219	34,234

Canadian production averaged 15,142 boe/d in 2012, an increase of 14% over 2011 production of 13,227 boe/d. The increased volumes were largely attributable to strong crude oil and liquids growth of 48%, arising primarily from Cardium related drilling activities, offset by natural declines and the intentional shut-in of a portion of the Company's dry natural gas production during the second half of the year. Fourth quarter 2012 production of 14,323 boe/d remained comparatively flat versus third quarter production of 14,449 boe/d and was modestly lower than same quarter production in 2011 of 15,163 boe/d, despite the impact of significant volumes of shut-in natural gas production. Vermilion's exposure to high netback oil and liquids production represented approximately 63% of Canadian production in the fourth quarter of 2012 compared to 52% and 41% in the fourth quarters of 2011 and 2010, respectively.

France production averaged 10,550 boe/d in 2012 representing a 28% increase compared to 8,269 boe/d in 2011. This increase is largely attributable to volumes associated with our France acquisition completed in January of 2012. During 2012, annual workover and recompletion activities were undertaken to largely offset natural declines in the region.

Netherlands average production increased 4% to 5,751 boe/d in 2012, from 5,538 boe/d in 2011. Incremental production from Vinkega-1, brought on-stream in December 2011, De Hoeve-1, brought on-stream in May 2012, and Eernwoude-2, drilled during the third quarter 2012 and brought on-stream in late November 2012, contributed to the modest year-over-year increase.

Average Australian production was 6,360 boe/d in 2012, a 22% decline from 8,168 boe/d in 2011. The decrease was largely attributable to natural production declines, both planned and unplanned shut-ins for maintenance and the deferral of anticipated 2012 drilling activities to the first quarter of 2013.

FINANCIAL REVIEW

During the three months ended December 31, 2012, Vermilion generated fund flows from operations of $141.7 million compared to $137.1 million for the three months ended September 30, 2012 and $136.9 million for the three months ended December 31, 2011. During the fourth quarter of 2012, Vermilion recorded an inventory build of crude oil in France and Australia totalling approximately 260,000 bbls.

Fund flows from operations increased for the fourth quarter of 2012 as compared to the third quarter of 2012 despite lower revenues, due to lower general and administration expenses, operating costs and taxes. The increase in fund flows from operations for the fourth quarter of 2012 as compared to the same period in the prior year was primarily the result of reduced current taxes.

The increase in fund flows from operations for the year ended December 31, 2012 as compared to the 2011 period was primarily the result of reduced PRRT in Australia and the shifting of Vermilion's commodity mix in favour of more crude oil from the Canadian Cardium development and the two acquisitions in France. These increases were partially offset by an $8.5 million payment to regulatory authorities relating to transfer taxes on the acquisition in France during the first quarter of 2012.

Cash flow from operating activities decreased for the three months ended December 31, 2012 as compared to the three months ended December 31, 2011. This decrease occurred despite the increase in fund flows from operations due to timing differences pertaining to the settlement of working capital. On a year-over-year basis, cash flow from operating activities increased due to the increase in fund flows from operations, as discussed above, partially offset by timing differences pertaining to working capital.

Vermilion's net debt was $677.2 million at December 31, 2012 (December 31, 2011 - $429.0 million) representing approximately 1.2 times 2012 fund flows from operations. The increase in net debt was the result of the two acquisitions in France during the first and fourth quarters of 2012 and current year development capital expenditures.

Long-term debt increased to $642.0 million at December 31, 2012 (December 31, 2011 - $373.4 million) as a result of payment of the US$135 million deferred payment, which pertained to the 2009 acquisition of Vermilion's 18.5% non-operated interest in the Corrib field, as well as funding of the two acquisitions in France.

For the year ended December 31, 2012, total net dividends, capital expenditures and asset retirement obligations settled (excluding capital expenditures and asset retirement obligations settled on the Corrib project) expressed as a percentage of fund flows from operations were 99% (year ended December 31, 2011 - 123)%. The year-over-year decrease in this ratio relates primarily to improved fund flows from operations and lower expenditures on land in Canada.

COMMODITY PRICES

	Three Months Ended			% change		Year Ended		% change
	Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	Q4/12 vs. Q3/12	Q4/12 vs. Q4/11	Dec 31, 2012	Dec 31, 2011	2012 vs. 2011
Average reference prices								
WTI (US $/bbl)	**88.18**	92.22	94.06	(4)%	(6)%	**94.20**	95.12	(1)%
Edmonton Sweet index (US $/bbl)	**84.86**	85.01	95.49	-	(11)%	**86.42**	96.44	(10)%
Dated Brent (US $/bbl)	**110.02**	109.61	109.31	-	1%	**111.58**	111.27	-
AECO ($/GJ)	**3.05**	2.17	3.01	41%	1%	**2.26**	3.43	(34)%
Netherlands gas price ($/GJ)	**9.78**	9.06	10.03	8%	(2)%	**9.51**	9.22	3%
Netherlands gas price (€/GJ)	**7.58**	7.28	7.27	4%	4%	**7.37**	6.68	10%
Average realized prices ($/boe)								
Canada	**58.80**	53.61	59.03	10%	-	**54.89**	53.82	2%
France	**102.26**	104.95	112.71	(3)%	(9)%	**105.13**	107.38	(2)%
Netherlands	**60.96**	56.88	62.95	7%	(3)%	**58.69**	57.51	2%
Australia	**115.22**	114.44	108.00	1%	7%	**117.03**	111.16	5%
Consolidated	**78.40**	80.35	81.60	(2)%	(4)%	**79.51**	80.29	(1)%
Production mix (% of production)								
% priced with reference to WTI	**25%**	23%	21%			**24%**	17%	
% priced with reference to AECO	**14%**	16%	20%			**16%**	21%	
% priced with reference to European gas	**17%**	17%	16%			**17%**	16%	
% priced with reference to Dated Brent	**44%**	44%	43%			**43%**	46%	

Reference prices

Overall, crude oil prices remained relatively consistent during the fourth quarter of 2012 as compared to the third quarter of 2012. WTI and the Edmonton Sweet index continued to trade at a significant discount to Dated Brent due to increased production in North America and the subsequent increase in inventories at Cushing, Oklahoma.

The AECO reference price increased from the third quarter of 2012 to the fourth quarter of 2012. However, AECO pricing remained significantly lower in 2012 compared to the previous year due in part to the excess supply of natural gas in North America and continued high levels of inventory.

The Netherlands realized gas price remained relatively consistent quarter-over-quarter.

Realized pricing

The realized price of Vermilion's crude oil in Canada is directly linked to WTI but is subject to market conditions in Western Canada. These market conditions can result in fluctuations in the pricing differential, as reflected by the Edmonton Sweet index price. The realized price of Vermilion's NGLs in Canada is based on product specific differentials pertaining to trading hubs in the U.S. The realized price of Vermilion's natural gas in Canada is based on the AECO spot price in Alberta.

Vermilion's crude oil in France and Australia is priced with reference to Dated Brent.

The price of Vermilion's natural gas in the Netherlands is based on pricing established by GasTerra, a state owned entity which purchases all natural gas produced by Vermilion in the Netherlands. The natural gas price in the Netherlands is calculated using a trailing average of Dated Brent and the natural gas prices from European trading hubs.

Average realized prices in Vermilion's international jurisdictions will differ from their corresponding average reference prices due to a number of factors, including the timing of: the sale of production, differences in the quality of production and point of settlement. In Canada, average realized prices are impacted by the production mix of crude oil, NGLs and natural gas. The quarter-over-quarter increase in the average realized price for Canada was due to an increase in the percentage of crude oil and NGLs production in Canada, from 59% for the third quarter of 2012 to 63% for the fourth quarter of 2012, this favorable shift in Vermilion's commodity mix was coupled with the increase in the AECO reference price for natural gas from $2.17/GJ to $3.05/GJ quarter-over-quarter.

On a consolidated basis, for the three months ended December 31, 2012, crude oil and NGL production represented approximately 69% of total production (three months ended December 31, 2011 - 64)%.

CAPITAL EXPENDITURES AND ACQUISITIONS

By classification ($M)	Three Months Ended Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	Year Ended Dec 31, 2012	Dec 31, 2011
Drilling and development	**151,157**	96,212	129,478	**413,221**	411,227
Exploration and evaluation	**5,878**	10,043	22,773	**39,317**	79,553
Capital expenditures	**157,035**	106,255	152,251	**452,538**	490,780
Property acquisitions	**-**	-	12,777	**106,184**	50,878
Corporate acquisition	**74,947**	-	-	**74,947**	-
Payment of amount due pursuant to acquisition	**134,307**	-	-	**134,307**	-
Acquisitions	**209,254**	-	12,777	**315,438**	50,878

By category ($M)	Three Months Ended Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	Year Ended Dec 31, 2012	Dec 31, 2011
Land	**462**	7,666	18,073	**46,508**	68,319
Seismic	**3,963**	2,653	3,731	**8,742**	9,694
Drilling and completion	**76,774**	55,320	74,287	**215,261**	227,666
Production equipment and facilities	**64,232**	34,691	47,283	**150,396**	151,488
Recompletions	**5,040**	2,956	3,377	**12,044**	17,767
Other	**6,564**	2,969	5,500	**19,587**	15,846
Capital expenditures	**157,035**	106,255	152,251	**452,538**	490,780
Acquisitions	**209,254**	-	12,777	**315,438**	50,878
Total capital expenditures and acquisitions	**366,289**	106,255	165,028	**767,976**	541,658

By country ($M)	Three Months Ended Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	Year Ended Dec 31, 2012	Dec 31, 2011
Canada	**84,609**	63,701	110,147	**275,748**	364,453
France	**95,905**	10,416	12,663	**228,444**	57,534
Netherlands	**8,118**	5,257	17,172	**21,324**	37,015
Australia	**25,257**	9,721	11,205	**49,389**	20,653
Ireland	**152,400**	17,160	13,841	**193,071**	62,003

Property acquisition:

On January 19, 2012, Vermilion acquired, through its wholly owned subsidiaries, working interests in six producing fields located in the Paris and Aquitaine basins in France, for total consideration of $106.1 million before closing adjustments. The acquired working interests expanded Vermilion's existing interests and was a natural addition to the Company's existing France asset base.

The acquired assets include land, wells, facilities, and inventory located in the Company's core producing basins in France. The fair value of the acquired identifiable assets and liabilities assumed at the date of acquisition was $151.4 million. A gain of $45.3 million was recognized as a result of an increase in the fair value of the acquired petroleum and natural gas reserves from the time when the acquisition was negotiated to the acquisition date. The increase resulted from a change in the underlying commodity price forecasts used to determine the fair value of the acquired reserves.

Corporate acquisition:

On December 21, 2012, Vermilion acquired, through its wholly owned subsidiaries, 100% of the shares of ZaZa Energy France S.A.S for total consideration of $74.9 million. The acquired company holds operating interests covering approximately 24,300 acres with 100% working interests in the Saint Firmin, Chateaurenard, Courtenay, Chuelles, and Charmottes fields in the Paris Basin. The acquired company expands Vermilion's existing operations in France and is aligned with Vermilion's objective to consolidate assets within the Company's core operating areas.

Amount due pursuant to acquisition:

The payment of the amount due pursuant to acquisition relates to Vermilion's acquisition of its 18.5% non-operated interest in the Corrib gas field in 2009. Pursuant to the terms of the acquisition agreement, Vermilion made a final payment to the vendor of $134.3 million (US$135 million) at the end of 2012.

Capital expenditures:

Capital expenditures for the fourth quarter of 2012 increased from the third quarter of 2012 primarily as a result of increased activity in Canada, France, and Australia. In Canada, capital expenditures increased by approximately $20.9 million quarter-over-quarter. This increase was largely driven by increased drilling activity as Vermilion participated in the drilling of 26 (17.7 net) wells during the fourth quarter as compared to 16 (11.5 net) wells during the third quarter. In France, capital expenditures increased by approximately $10.6 million quarter-over-quarter, due primarily to expenditures on facilities. In Australia, capital expenditures increased by approximately $15.5 million quarter-over-quarter, due to the purchase of long lead items for the 2013 drilling campaign and expenditures for certain marine activities.

Capital expenditures for the fourth quarter of 2012 increased slightly as compared to the same period in 2011. This increase was the result of increased drilling and facilities expenditures offset by significantly lower expenditures on land. The increased drilling and facilities expenditures in 2012 were primarily in France and Australia relating to the preparation for the respective 2013 drilling campaigns and the aforementioned facilities and marine activities.

Overall, capital expenditures in 2012 were lower than in 2011 due to reduced expenditures in all jurisdictions except for Australia. The reduced expenditures were primarily in Canada as a result of lower facilities expenditures, including the absence of construction costs relating to the 15,000 bbls/d Cardium oil processing facility that was completed in 2011, reduced land acquisitions and well tie-in activity.

PETROLEUM AND NATURAL GAS SALES

	Three Months Ended			% change		Year Ended		% change
By product	**Dec 31,**	**Sept 30,**	**Dec 31,**	**Q4/12 vs.**	**Q4/12 vs.**	**Dec 31,**	**Dec 31,**	**2012 vs.**
($M except per boe and per mcf)	**2012**	**2012**	**2011**	**Q3/12**	**Q4/11**	**2012**	**2011**	**2011**
Crude oil & NGLs	**196,286**	243,471	227,166	(19)%	(14)%	**913,174**	852,514	7%
Per boe	**96.74**	100.70	105.49	(4)%	(8)%	**101.07**	104.58	(3)%
Natural gas	**44,947**	41,367	48,006	9%	(6)%	**169,929**	179,056	(5)%
Per mcf	**7.15**	6.12	6.57	17%	9%	**6.17**	6.35	(3)%
Petroleum and natural gas sales	**241,233**	284,838	275,172	(15)%	(12)%	**1,083,103**	1,031,570	5%
Per boe	**78.40**	80.35	81.60	(2)%	(4)%	**79.51**	80.29	(1)%

	Three Months Ended			% change		Year Ended		% change
By country	**Dec 31,**	**Sept 30,**	**Dec 31,**	**Q4/12 vs.**	**Q4/12 vs.**	**Dec 31,**	**Dec 31,**	**2012 vs.**
($M except per boe)	**2012**	**2012**	**2011**	**Q3/12**	**Q4/11**	**2012**	**2011**	**2011**
Canada	**77,476**	71,268	82,342	9%	(6)%	**304,202**	259,854	17%
Per boe	**58.80**	53.61	59.03	10%	-	**54.89**	53.82	2%
France	**87,702**	102,369	82,707	(14)%	6%	**388,410**	324,090	20%
Per boe	**102.26**	104.95	112.71	(3)%	(9)%	**105.13**	107.38	(2)%
Netherlands	**31,260**	30,386	33,753	3%	(7)%	**123,528**	116,227	6%
Per boe	**60.96**	56.88	62.95	7%	(3)%	**58.69**	57.51	2%
Australia	**44,795**	80,815	76,370	(45)%	(41)%	**266,963**	331,399	(19)%
Per boe	**115.22**	114.44	108.00	1%	7%	**117.03**	111.16	5%

Vermilion's consolidated petroleum and natural gas sales for the three months ended December 31, 2012 were lower than both the three months ended September 30, 2012 and December 31, 2011. The quarter-over-quarter and year-over-year decreases were primarily the result of lower sold volumes in both France and Australia as a result of a build in inventory during December of 2012. On a year-over-year basis, the impact of the inventory build was partially offset by increased production in France, resulting from the acquisition in January of 2012.

Consolidated petroleum and natural gas sales for the year ended December 31, 2012 were higher than the previous year. This increase was driven largely by higher production in both Canada and France as a result of Vermilion's continued Cardium development and the acquisition of producing properties in January of 2012. These increases were partially offset by lower production in Australia and weaker Canadian crude oil and natural gas prices year-over-year.

CRUDE OIL INVENTORY

Vermilion carries an inventory of crude oil in France and Australia, which is a result of timing differences between production and sales.

The following table summarizes the changes in Vermilion's crude oil inventory positions:

	Three Months Ended			Year Ended	
(bbls)	**Dec 31, 2012**	**Sept 30, 2012**	**Dec 31, 2011**	**Dec 31, 2012**	**Dec 31, 2011**
France					
Opening crude oil inventory	245,995	270,801	209,637	186,955	158,229
Crude oil production	905,560	898,599	903,749	3,642,453	2,960,164
Crude oil sales	(797,638)	(923,405)	(926,431)	(3,475,491)	(2,931,438)
Closing crude oil inventory	353,917	245,995	186,955	353,917	186,955
Australia					
Opening crude oil inventory	116,849	274,878	171,736	221,898	172,199
Crude oil production	540,331	548,144	707,131	2,327,654	2,981,262
Crude oil sales	(388,772)	(706,173)	(656,969)	(2,281,144)	(2,931,563)
Closing crude oil inventory	268,408	116,849	221,898	268,408	221,898

Inventory as at December 31, 2012 was comprised of the following components:

($M)	**France**	**Australia**	**Total**
Operating expense	6,304	7,305	13,609
Royalties	1,757	-	1,757
Depletion	6,397	3,956	10,353
	14,458	11,261	25,719

DERIVATIVE INSTRUMENTS

The nature of Vermilion's operations results in exposure to fluctuations in commodity prices, interest rates and foreign currency exchange rates. Vermilion monitors and, when appropriate, uses derivative financial instruments to manage its exposure to these fluctuations. All transactions of this nature entered into by Vermilion are related to an underlying financial position or to future crude oil and natural gas production. Vermilion does not use derivative financial instruments for speculative purposes. Vermilion has elected not to designate any of its derivative financial instruments as accounting hedges and thus accounts for changes in fair value in net earnings at each reporting period. Vermilion has not obtained collateral or other security to support its financial derivatives as management reviews the creditworthiness of its counterparties prior to entering into derivative contracts.

During the normal course of business, Vermilion may enter into fixed price arrangements to sell a portion of its production or purchase commodities for operational use. Vermilion does not apply fair value accounting on these contracts as they were entered into and continue to be held for the sale of production or operational use in accordance with the Company's expected requirements.

The following table summarizes Vermilion's outstanding risk management positions as at December 31, 2012:

Risk Management - Oil	Funded Cost (US $/bbl)	bbls/d	Strike Price(s) US $/bbl
Swap - WTI			
January 2013 - June 2013 [1]	-	1,000	101.18
January 2013 - December 2013	-	2,000	93.04
Collar - WTI			
January 2013 - March 2013	-	650	85.00 - 97.65
April 2013 - June 2013	-	250	88.00 - 109.43
Collar - Dated Brent			
January 2013 - March 2013	-	1,550	103.97 - 118.81
January 2013 - March 2013	1.00	250	95.00 - 132.15
January 2013 - June 2013	-	2,000	90.00 - 105.28
January 2013 - December 2013	-	3,500	96.14 - 107.34
April 2013 - June 2013	-	250	105.00 - 114.65
July 2013 - December 2013	-	500	95.00 - 109.10

[1] The counterparties to the swaps have the option on June 28, 2013 to extend the swap to December 31, 2013 at the contracted volume and price.

Risk Management - Natural Gas	Funded Cost ($/GJ)	GJ/d	Strike Price(s) $/GJ
Collar - AECO (Physical)			
April 2012 - March 2014	0.10	5,500	2.60 - 3.78
June 2012 - March 2014	0.10	3,000	2.30 - 3.75

From time to time Vermilion enters into new risk management positions. Information regarding outstanding risk management positions is available on Vermilion's website at www.vermilionenergy.com/ir/hedging.cfm.

The following table summarizes the impact of derivative instruments on cash flows from operating activities:

	Three Months Ended			% change		Year Ended		% change
($M except per boe)	Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	Q4/12 vs. Q3/12	Q4/12 vs. Q4/11	Dec 31, 2012	Dec 31, 2011	2012 vs. 2011
Realized loss on derivative instruments	**1,559**	1,869	6,115	(17)%	(75)%	**12,737**	28,300	(55)%
Per boe	**0.51**	0.53	1.81	(4)%	(72)%	**0.93**	2.20	(58)%

The realized loss on derivative instruments was lower in the fourth quarter of 2012 as compared to both the third quarter of 2012 and the fourth quarter of 2011 due to weaker crude oil prices relative to the ceiling on certain derivative instruments pertaining to 2012. During the current quarter, crude oil prices were generally lower than the ceiling price of Vermilion's derivative instruments and as such the realized loss related primarily to premiums paid on funded collars and put options.

ROYALTIES

By product ($M except per boe and per mcf)	Three Months Ended Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	% change Q4/12 vs. Q3/12	Q4/12 vs. Q4/11	Year Ended Dec 31, 2012	Dec 31, 2011	% change 2012 vs. 2011
Crude oil & NGLs	**11,429**	12,087	14,233	(5)%	(20)%	**50,999**	50,945	-
Per boe	**5.63**	5.00	6.61	13%	(15)%	**5.64**	6.25	(10)%
Natural gas	**509**	276	772	84%	(34)%	**1,085**	3,290	(67)%
Per mcf	**0.08**	0.04	0.11	100%	(27)%	**0.04**	0.12	(67)%
Royalties	**11,938**	12,363	15,005	(3)%	(20)%	**52,084**	54,235	(4)%
Per boe	**3.88**	3.49	4.45	11%	(13)%	**3.82**	4.22	(9)%
% of petroleum and natural gas sales	**4.9%**	4.3%	5.5%			**4.8%**	5.3%	

By country ($M except per boe)	Three Months Ended Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	% change Q4/12 vs. Q3/12	Q4/12 vs. Q4/11	Year Ended Dec 31, 2012	Dec 31, 2011	% change 2012 vs. 2011
Canada	**7,401**	7,081	10,176	5%	(27)%	**31,667**	34,980	(9)%
Per boe	**5.62**	5.33	7.29	5%	(23)%	**5.71**	7.25	(21)%
% of petroleum and natural gas sales	**9.6%**	9.9%	12.4%			**10.4%**	13.5%	
France	**4,537**	5,282	4,829	(14)%	(6)%	**20,417**	19,255	6%
Per boe	**5.29**	5.42	6.58	(2)%	(20)%	**5.53**	6.38	(13)%
% of petroleum and natural gas sales	**5.2%**	5.2%	5.8%			**5.3%**	5.9%	

In Canada, royalties as a percentage of sales for the three months ended December 31, 2012 was 9.6% as compared to 9.9% for the prior quarter and 12.4% for the comparative period of the prior year. Low natural gas pricing in 2011 and 2012 resulted in minimal natural gas royalties for those periods. Crude oil and NGL royalties as a percentage of sales for the current quarter of 10.4% were consistent with the rate of 10.9% for the prior quarter but have decreased from 13.7% for the fourth quarter of 2011 due to lower royalty rates levied on initial production volumes from Vermilion's horizontal Cardium wells. As Vermilion's production mix has continued to shift toward these types of wells, the Company's crude oil and NGL royalty expense as a percentage of sales has declined. Crude oil and NGL royalties as a percentage of sales for the year ended December 31, 2012 decreased to 11.5% from 16.0% for the prior year reflecting additional wells being put on production that benefit from this royalty incentive.

In France, the primary portion of the royalties is levied in Euros and is based on units of production and therefore is not subject to changes in commodity prices. France royalties as a percentage of sales remained constant at 5.2% for the third and fourth quarters of 2012. Royalties as a percentage of sales for the three and twelve months ended December 31, 2012 decreased to 5.2% and 5.3%, respectively, as compared to 5.8% and 5.9% for the same periods of the prior year due to the impact of a weakened Euro year-over-year.

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

OPERATING EXPENSE

By product ($M except per boe and per mcf)	Three Months Ended Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	% change Q4/12 vs. Q3/12	Q4/12 vs. Q4/11	Year Ended Dec 31, 2012	Dec 31, 2011	% change 2012 vs. 2011
Crude oil & NGLs	**31,212**	36,889	29,249	(15)%	7%	**133,612**	119,448	12%
Per boe	**15.38**	15.26	13.58	1%	13%	**14.79**	14.65	1%
Natural gas	**12,422**	10,141	11,264	22%	10%	**44,830**	42,936	4%
Per mcf	**1.98**	1.50	1.54	32%	29%	**1.63**	1.52	7%
Operating	**43,634**	47,030	40,513	(7)%	8%	**178,442**	162,384	10%
Per boe	**14.18**	13.27	12.01	7%	18%	**13.10**	12.64	4%

By country ($M except per boe)	Three Months Ended Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	% change Q4/12 vs. Q3/12	Q4/12 vs. Q4/11	Year Ended Dec 31, 2012	Dec 31, 2011	% change 2012 vs. 2011
Canada	**14,514**	13,420	11,970	8%	21%	**55,418**	51,473	8%
Per boe	**11.01**	10.10	8.58	9%	28%	**10.00**	10.66	(6)%
France	**13,699**	12,351	11,381	11%	20%	**54,907**	46,922	17%
Per boe	**15.97**	12.66	15.51	26%	3%	**14.86**	15.55	(4)%
Netherlands	**5,713**	3,870	5,141	48%	11%	**19,149**	17,487	10%
Per boe	**11.14**	7.24	9.59	54%	16%	**9.10**	8.65	5%
Australia	**9,708**	17,389	12,021	(44)%	(19)%	**48,968**	46,502	5%
Per boe	**24.97**	24.62	17.00	1%	47%	**21.47**	15.60	38%

In Canada, fourth quarter operating expense of $14.5 million was higher than the $13.4 million for the third quarter of 2012 and the $12.0 million for the fourth quarter of 2011 due to two facility turnarounds that occurred during the fourth quarter of this year. Canadian operating expense increased to $55.4 million for the year ended December 31, 2012 from $51.5 million for the prior year as a result of costs related to an oil processing facility that was commissioned in 2011 to handle Cardium oil volumes as well as additional downhole work. On a per boe basis, quarter-over-quarter operating expense increased due to the aforementioned turnarounds. Operating costs per boe for the three months ended December 31, 2012, as compared to the same period in the prior year, increased by $2.43 as a result of the turnaround activity in the fourth quarter of 2012 plus additional downhole work year-over-year. For the full year, operating costs per boe decreased by $0.66 due to significantly higher production volumes.

In France, fourth quarter operating expense of $13.7 million was higher than both the third quarter expense of $12.4 million and the expense of $11.4 million for the fourth quarter of 2011 due to increased downhole and maintenance work. Higher expenditures resulted in increased costs per boe for the current quarter versus the previous quarter. As compared to the previous year, higher sales volumes minimized the increase on a per boe basis. For the twelve months ended December 31, 2012 operating costs increased to $54.9 million from $46.9 million for the corresponding period in the prior year due to the acquisition of producing properties in the first quarter of 2012. The increased volumes associated with this acquisition resulted in operating expense per boe decreasing to $14.86 for the year ended December 31, 2012 from $15.55 in the prior year.

In the Netherlands, operating expense for the three months ended December 31, 2012 of $5.7 million increased from $3.9 million in the prior quarter and from $5.1 million for the fourth quarter of 2011 due to the timing of project work. For the year ended December 31, 2012 operating expense increased to $19.1 million as compared to $17.5 million for the prior year primarily as a result of higher electricity usage related to the Vinkega-2 well. Operating expense per boe for the three and twelve months ended December 31, 2012 increased in comparison to the same periods of the prior year due to these higher expenditures and relatively consistent sales volumes. Quarter-over-quarter operating costs per boe increased due to higher expenditures and slightly lower sales volumes.

In Australia, fourth quarter operating expense decreased to $9.7 million from the previous quarter's expense of $17.4 million due to an increase in crude oil inventory associated with shipment timing. An increase in crude oil inventory results in the related production costs being carried on the balance sheet until the product is sold. Operating costs were further decreased quarter-over-quarter as the platform ran on diesel for fewer days during the fourth quarter as compared to the third quarter. Operating expense for the year ended December 31, 2012 increased as compared to the prior year due to higher compensation costs. On a per boe basis, quarter-over-quarter operating expenses remained consistent. However, fourth quarter 2012 operating expense per boe of $24.97 was higher than the $17.00 for the fourth quarter of the prior year due to lower volumes. For the year ended December 31, 2012, operating expense per boe was higher than the prior year due to increased maintenance costs coupled with a decrease in volumes.

TRANSPORTATION EXPENSE

	Three Months Ended			% change		Year Ended		% change
By country	**Dec 31,**	**Sept 30,**	**Dec 31,**	**Q4/12 vs.**	**Q4/12 vs.**	**Dec 31,**	**Dec 31,**	**2012 vs.**
($M except per boe)	**2012**	**2012**	**2011**	**Q3/12**	**Q4/11**	**2012**	**2011**	**2011**
Canada	**1,922**	2,005	1,972	(4)%	(3)%	**8,321**	6,599	26%
Per boe	**1.46**	1.51	1.41	(3)%	4%	**1.50**	1.37	9%
France	**1,854**	1,840	2,955	1%	(37)%	**8,236**	10,118	(19)%
Per boe	**2.16**	1.89	4.03	14%	(46)%	**2.23**	3.35	(33)%
Ireland	**1,682**	1,899	2,101	(11)%	(20)%	**7,556**	8,822	(14)%
Transportation	**5,458**	5,744	7,028	(5)%	(22)%	**24,113**	25,539	(6)%
Per boe	**1.77**	1.62	2.08	9%	(15)%	**1.77**	1.99	(11)%

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

For the majority of Canadian crude oil and natural gas production, transportation expense relates to the delivery to major pipelines where legal title transfers. In France, the majority of Vermilion's transportation expense relates to production from the Aquitaine Basin, which is transported by pipeline to the Ambès terminal in Bordeaux and then shipped by tanker to refineries in North Western Europe, where the production is sold once unloaded from the tanker. In Australia, crude oil is sold directly from 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 for Ireland pertains to the amount due under a ship or pay agreement related to the Corrib project. However, as there is a ceiling on the total payments due in relation to the associated pipeline, these expenses essentially represent a prepayment for future pipeline transportation services.

Consolidated transportation expense for the fourth quarter of 2012 was slightly lower than the expense for the third quarter of 2012. This quarter-over-quarter decrease was primarily as a result of lower payments under the ship or pay agreement related to the Corrib project.

Consolidated transportation expense for the three months ended December 31, 2012 was lower than the same period in the prior year. This decrease was primarily in France as a result of a reduced number of Aquitaine shipments due to the usage of higher volume cargo vessels in 2012.

Consolidated transportation expense for the year ended December 31, 2012 was slightly lower than the expense for 2011. The decrease was a result of lower transportation expense in France and Ireland, as discussed above, offset partially by higher transportation expense in Canada due to increased volumes.

OTHER EXPENSE (INCOME)

	Three Months Ended			% change		Year Ended		% change
	Dec 31,	**Sept 30,**	**Dec 31,**	**Q4/12 vs.**	**Q4/12 vs.**	**Dec 31,**	**Dec 31,**	**2012 vs.**
($M except per boe)	**2012**	**2012**	**2011**	**Q3/12**	**Q4/11**	**2012**	**2011**	**2011**
Other expense (income)	**460**	(277)	(787)	(266)%	(158)%	**8,751**	1,155	658%
Per boe	**0.15**	(0.08)	(0.24)	(288)%	(163)%	**0.64**	0.09	611%

For the year ended December 31, 2012, other expense was comprised primarily of $8.5 million relating to transfer taxes paid to regulatory authorities in France pursuant to the acquisition, in the first quarter of 2012, of certain working interests in six producing fields located in the Paris and Aquitaine basins in France.

GENERAL AND ADMINISTRATION EXPENSE

	Three Months Ended			% change		Year Ended		% change
($M except per boe)	Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	Q4/12 vs. Q3/12	Q4/12 vs. Q4/11	Dec 31, 2012	Dec 31, 2011	2012 vs. 2011
General and administration	**8,888**	12,669	9,753	(30)%	(9)%	**43,773**	44,583	(2)%
Per boe	**2.89**	3.57	2.89	(19)%	-	**3.21**	3.47	(7)%

General and administration expense for the fourth quarter of 2012 was lower than the expense for both the previous quarter and the fourth quarter of the prior year largely due to the timing of expenditures and higher capital overhead recoveries. General and administration expense for the year ended December 31, 2012 remained consistent as compared to the prior year.

EQUITY BASED COMPENSATION EXPENSE

	Three Months Ended			% change		Year Ended		% change
($M except per boe)	Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	Q4/12 vs. Q3/12	Q4/12 vs. Q4/11	Dec 31, 2012	Dec 31, 2011	2012 vs. 2011
Equity based compensation	**18,484**	8,704	16,150	112%	14%	**47,104**	38,667	22%
Per boe	**6.01**	2.46	4.79	144%	25%	**3.46**	3.01	15%

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

Equity based compensation expense for the three months ended December 31, 2012 was higher than both the prior quarter and the same quarter in 2011 primarily as a result of a change in performance factor assumptions in the current quarter. Performance factors are determined annually by the Board of Directors after consideration of a number of key corporate performance measures including, but not limited to, shareholder return, capital efficiency metrics, production and reserves growth and safety performance. The change in the performance factor assumptions in the fourth quarter reflected information that was more readily available in the latter part of the fiscal year regarding Vermilion's 2012 performance.

INTEREST EXPENSE

	Three Months Ended			% change		Year Ended		% change
($M except per boe)	Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	Q4/12 vs. Q3/12	Q4/12 vs. Q4/11	Dec 31, 2012	Dec 31, 2011	2012 vs. 2011
Interest expense	**7,656**	7,229	6,365	6%	20%	**27,586**	24,967	10%
Per boe	**2.49**	2.04	1.89	22%	32%	**2.03**	1.94	5%

Interest expense increased during the current quarter as compared to both the prior quarter and same quarter in the previous year primarily due to increased borrowings under Vermilion's revolving credit facility. Interest expense increased during 2012 as compared to 2011 as a result of higher debt levels, including the impact of the 6.5% senior unsecured notes, issued in February of 2011, being outstanding for all of 2012.

DEPLETION AND DEPRECIATION, ACCRETION, IMPAIRMENTS AND GAIN ON ACQUISITION

	Three Months Ended			% change		Year Ended		% change
($M except per boe)	**Dec 31, 2012**	**Sept 30, 2012**	**Dec 31, 2011**	**Q4/12 vs. Q3/12**	**Q4/12 vs. Q4/11**	**Dec 31, 2012**	**Dec 31, 2011**	**2012 vs. 2011**
Depletion and depreciation	**66,642**	76,941	64,895	(13)%	3%	**295,943**	236,708	25%
Per boe	**21.66**	21.70	19.24	-	13%	**21.72**	18.42	18%
Accretion	**6,119**	5,891	5,793	4%	6%	**23,040**	21,889	5%
Per boe	**1.99**	1.66	1.72	20%	16%	**1.69**	1.70	(1)%
Impairments	**-**	-	64,400	-	(100)%	**65,800**	64,400	2%
Per boe	**-**	-	19.10	-	(100)%	**4.83**	5.01	(4)%
Gain on acquisition	**-**	-	-	-	-	**(45,309)**	-	(100)%
Per boe	**-**	-	-	-	-	**(3.33)**	-	(100)%

Depletion and depreciation expense on a per boe basis was relatively consistent for the three months ended December 31, 2012 as compared to the three months ended September 30, 2012. On a year-over-year basis, depletion and depreciation expense on a per boe basis was higher primarily due to the result of higher finding, development and acquisition costs incurred. These increased costs were the result of additional liquids development in Canada and the acquisition of six producing fields in France in January of 2012.

Accretion expense increased for the fourth quarter of 2012 as compared to the third quarter of 2012. The increase quarter-over-quarter was primarily the result of the impact of the appreciation of the Euro against the Canadian dollar on Euro denominated accretion expense in France, Ireland and the Netherlands. Accretion expense was higher for both the three months and year ended December 31, 2012 as compared to the same periods in 2011 due to an increase in asset retirement obligations.

The impairment losses for both the years ended December 31, 2012 and 2011 pertain to impairment losses recorded on Vermilion's conventional deep gas and shallow coal bed methane natural gas plays. These impairment charges were the result of significant declines in the forward pricing assumptions for natural gas in Canada.

The gain on acquisition for the year ended December 31, 2012 relates to Vermilion's acquisition of certain working interests in the Paris and Aquitaine basins in France during the first quarter of 2012. The gain arose as a result of the increase in the fair value of the acquired petroleum and natural gas reserves from the time when the acquisition was negotiated to the acquisition date. The increase resulted from a change in the underlying commodity price forecasts used to determine the fair value of the acquired reserves.

TAXES

	Three Months Ended			% change		Year Ended		% change
By classification	**Dec 31,**	**Sept 30,**	**Dec 31,**	**Q4/12 vs.**	**Q4/12 vs.**	**Dec 31,**	**Dec 31,**	**2012 vs.**
($M except per boe)	**2012**	**2012**	**2011**	**Q3/12**	**Q4/11**	**2012**	**2011**	**2011**
Current taxes before PRRT	**21,470**	38,784	33,446	(45)%	(36)%	**121,843**	120,019	2%
Per boe	**6.98**	10.94	9.92	(36)%	(30)%	**8.94**	9.34	(4)%
PRRT	**1,598**	22,743	21,541	(93)%	(93)%	**60,070**	99,075	(39)%
Per boe	**0.52**	6.42	6.39	(92)%	(92)%	**4.41**	7.71	(43)%
Current taxes	**23,068**	61,527	54,987	(63)%	(58)%	**181,913**	219,094	(17)%
Per boe	**7.50**	17.36	16.31	(57)%	(54)%	**13.35**	17.05	(22)%

	Three Months Ended			% change		Year Ended		% change
By country	**Dec 31,**	**Sept 30,**	**Dec 31,**	**Q4/12 vs.**	**Q4/12 vs.**	**Dec 31,**	**Dec 31,**	**2012 vs.**
($M except per boe)	**2012**	**2012**	**2011**	**Q3/12**	**Q4/11**	**2012**	**2011**	**2011**
Canada	**259**	36	(783)	619%	133%	**1,582**	508	211%
Per boe	**0.20**	0.03	(0.56)	567%	136%	**0.29**	0.11	164%
France	**13,335**	21,051	17,738	(37)%	(25)%	**63,006**	65,964	(4)%
Per boe	**15.55**	21.58	24.17	(28)%	(36)%	**17.05**	21.86	(22)%
Netherlands	**1,102**	9,614	6,431	(89)%	(83)%	**25,648**	18,149	41%
Per boe	**2.15**	18.00	11.99	(88)%	(82)%	**12.18**	8.98	36%
Australia	**8,372**	30,826	31,601	(73)%	(74)%	**91,677**	134,473	(32)%
Per boe	**21.53**	43.66	44.69	(51)%	(52)%	**40.19**	45.10	(11)%

Vermilion pays current taxes in France, the Netherlands and Australia. Corporate income taxes in France and the Netherlands apply to taxable income after eligible deductions. In France, taxable income is taxed at a rate of approximately 34.4%, plus an additional profit tax of 1.7% levied from 2012 to 2014 if annual gross revenues exceed 250 million Euros. In the Netherlands, taxable income is taxed at a rate of approximately 46%. As a function of the impact of Vermilion's Canadian tax pools, the Company does not presently pay current taxes in Canada. The Canadian segment includes holding companies that pay current taxes in foreign jurisdictions.

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

Total current taxes before PRRT for the year ended December 31, 2012 were relatively unchanged as compared to the same period in 2011 due to the offsetting impact of increased taxes in the Netherlands and decreased taxes in Australia. In the Netherlands, current taxes increased due to the absence of a 2011 tax incentive which allowed Vermilion to accelerate the rate of depreciation of certain assets. In Australia, current taxes before PRRT decreased due to lower revenues.

Total current taxes before PRRT for the fourth quarter of 2012 were lower than both the third quarter of 2012 and the fourth quarter of 2011. The decrease was primarily a result of deductions for asset retirement obligations and depletion recorded in the fourth quarter of 2012.

PRRT decreased for the three months and year ended December 31, 2012 compared to the same periods in the prior year. The year-over-year decreases were primarily a result of lower revenues and higher capital expenditures in Australia. On a quarter over quarter basis, PRRT was lower for the fourth quarter as compared to the third quarter. This decrease is primarily attributable to the inventory build in the fourth quarter, which significantly reduced revenues for the Australia segment.

As at December 31, 2012, Vermilion had the following tax pools:

($M)	Oil & Gas Assets	Tax Losses [4]	Other	Total
Canada	802,741[1]	418,927	19,062	1,240,730
France	289,430[2]	35,059	-	324,489
Netherlands	30,475[3]	-	-	30,475
Australia	220,641[1]	-	-	220,641
Ireland	670,841[4]	186,724	-	857,565
Total	2,014,128	640,710	19,062	2,673,900

1 Deduction calculated using various declining balance rates
2 Deduction calculated using a combination of straight-line over the assets life and unit of production method
3 Deduction calculated using a unit of production method
4 Development expenditures and losses are deductible at 100% against taxable income

FOREIGN EXCHANGE

	Three Months Ended			Year Ended	
($M except per boe)	Dec 31, 2012	Sept 30, 2012	Dec 31, 2011	Dec 31, 2012	Dec 31, 2011
Unrealized foreign exchange (gain) loss	**(13,873)**	6,740	24,974	**4,350**	11,022
Per boe	**(4.50)**	1.89	7.41	**0.32**	0.86
Realized foreign exchange gain	**(2,459)**	(410)	(1,252)	**(2,804)**	(1,024)
Per boe	**(0.81)**	(0.11)	(0.37)	**(0.21)**	(0.08)
Foreign exchange (gain) loss	**(16,332)**	6,330	23,722	**1,546**	9,998
Per boe	**(5.31)**	1.78	7.04	**0.11**	0.78

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

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

For the three months ended December 31, 2012, the unrealized foreign exchange gain primarily resulted from the impact of the depreciation of the Canadian dollar against the Euro and the resultant impact on Euro denominated loans made by Vermilion to its subsidiaries.

NET EARNINGS

For the three months and year ended December 31, 2012, Vermilion had net earnings of $56.9 million or $0.58 per share and $190.6 million or $1.94 per share, respectively (three months and year ended December 31, 2011, net loss of $30.2 million or $0.32 per share and net earnings of $142.8 million or $1.57 per share, respectively).

Vermilion's net earnings for the year ended December 31, 2012 increased over 33% from 2011. The increase in net earnings was driven in part by a shift in the Company's commodity mix in favor of higher value crude oil and European gas production while reducing exposure to depressed Canadian natural gas prices. This commodity shift resulted from Vermilion's continued Canadian Cardium development and acquisitions of Brent-based crude properties in France during the first and fourth quarters of 2012. In addition, Vermilion recorded a gain on acquisition on the first quarter of 2012 acquisition in France and lower unrealized losses on foreign exchange year-over-year. Vermilion's net earnings for the three months ended December 31, 2012 similarly increased over the net loss from 2011. This change was primarily the result of the aforementioned commodity mix shift coupled with the absence of the impairment that was recorded in the fourth quarter of 2011 related to Vermilion's conventional deep gas and shallow coal bed methane natural gas plays.

SUMMARY OF RESULTS

	Year Ended		
($M except per share)	**Dec 31, 2012**	**Dec 31, 2011**	**Dec 31, 2010**
Petroleum and natural gas sales	**1,083,103**	1,031,570	727,805
Net earnings	**190,622**	142,821	44,395
Net earnings per share			
Basic	**1.94**	1.57	0.53
Diluted	**1.92**	1.55	0.53
Total assets	**3,076,257**	2,735,187	2,325,797
Long-term debt	**642,022**	373,436	302,558
Cash dividends ($/share)	**2.28**	2.28	2.28

	Three Months Ended							
($M except per share)	**Dec 31, 2012**	**Sept 30, 2012**	**Jun 30, 2012**	**Mar 31, 2012**	**Dec 31, 2011**	**Sept 30, 2011**	**Jun 30, 2011**	**Mar 31, 2011**
Petroleum and natural gas sales	**241,233**	284,838	246,544	310,488	275,172	248,361	278,297	229,740
Net earnings (loss)	**56,914**	30,798	37,816	65,094	(30,243)	64,442	81,429	27,193
Net earnings (loss) per share								
Basic	**0.58**	0.31	0.39	0.67	(0.32)	0.71	0.90	0.30
Diluted	**0.57**	0.31	0.38	0.66	(0.32)	0.70	0.89	0.30

The fluctuations in Vermilion's petroleum and natural gas sales and net earnings (loss) from quarter-to-quarter are primarily caused by variations in sales volumes, crude oil and natural gas prices and the impact of royalties and tax legislation in the jurisdictions in which Vermilion operates. In addition, petroleum and natural gas prices may impact gains and losses on derivative instruments and may result in impairment charges or the reversal of impairment charges incurred in previous periods.

LIQUIDITY AND CAPITAL RESOURCES

Vermilion's net debt as at December 31, 2012 was $677.2 million compared to $429.0 million as at December 31, 2011.

Long-term debt was comprised of the following balances as at December 31, 2012 and December 31, 2011:

	As At	
($M)	**Dec 31, 2012**	**Dec 31, 2011**
Revolving credit facility	**419,784**	152,086
Senior unsecured notes	**222,238**	221,350
Long-term debt	**642,022**	373,436

Revolving Credit Facility

At December 31, 2012, Vermilion had in place a bank revolving credit facility totalling $950 million, of which approximately $419.8 million was drawn. The facility, which matures in May of 2015, is fully revolving up to the date of maturity.

The facility is extendable from time to time, but not more than once per year, for a period not longer than three years, at the option of the lenders and upon notice from Vermilion. If no extension is granted by the lenders, the amounts owing pursuant to the facility are repayable on the maturity date. This facility bears interest at a rate applicable to demand loans plus applicable margins. For the year ended December 31, 2012, the interest rate on the revolving credit facility was approximately 3.3% (2011 – 3.4%).

The amount available to Vermilion under this facility is reduced by outstanding letters of credit associated with Vermilion's operations totalling $49.2 million as at December 31, 2012 (December 31, 2011 - $3.7 million).

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

As at December 31, 2012, Vermilion was in compliance with its financial covenants.

Senior Unsecured Notes

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

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As at December 31, 2012, Vermilion had the following contractual obligations and commitments:

($M)	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**	**Total**
Long-term debt	13,406	449,034	226,625	-	689,065
Operating lease obligations	9,178	17,941	14,924	34,006	76,049
Ship or pay agreement relating to the Corrib project	6,374	10,377	8,280	35,548	60,579
Purchase obligations	18,529	9,417	997	-	28,943
Drilling and service agreements	14,702	-	-	-	14,702
Total contractual obligations	62,189	486,769	250,826	69,554	869,338

ASSET RETIREMENT OBLIGATIONS

As at December 31, 2012, Vermilion's asset retirement obligations were $371.1 million compared to $310.5 million as at December 31, 2011.

The increase in asset retirement obligations is largely attributable to liabilities acquired pursuant to the two acquisitions in France during the first and fourth quarters of 2012.

DIVIDENDS

($M)	Three Months Ended Dec 31, 2012	Year Ended Dec 31, 2012	Year Ended Dec 31, 2011
Cash flows from operating activities	**99,907**	**496,580**	447,092
Net earnings	**56,914**	**190,622**	142,821
Dividends declared	**56,435**	**223,717**	207,846
Excess of cash flows from operating activities over dividends declared	**43,472**	**272,863**	239,246
Excess (shortfall) of net earnings over dividends declared	**479**	**(33,095)**	(65,025)

During year ended December 31, 2012, Vermilion maintained monthly dividends at $0.19 per share and declared dividends totalling $223.7 million.

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

Following 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 remained at $0.19 per share per month until increased to $0.20 per share per month in January 2013. The January 2013 increase was announced on November 14, 2012 and resulted in an increase in the monthly cash dividends by 5.3% to $0.20 per share per month beginning with the January 2013 dividend (paid on February 15, 2013).

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

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

SHAREHOLDERS' EQUITY

During the year ended December 31, 2012, Vermilion issued 2.7 million shares pursuant to the dividend reinvestment plan and Vermilion's equity based compensation programs. Shareholders' capital increased by $113.2 million as a result of the issuance of those shares.

As at December 31, 2012, there were 99.1 million shares outstanding. As at February 28, 2013, there were 99.4 million shares outstanding.

CORRIB PROJECT

Vermilion holds an 18.5% non-operating interest in the offshore Corrib gas field located off the northwest coast of Ireland. Production from Corrib is expected to increase Vermilion's volumes by approximately 55 mmcf/d (9,000 boe/d) once the field reaches peak production. Vermilion acquired its 18.5% working interest in the project on July 30, 2009. The project comprises five offshore wells, both offshore and onshore pipeline segments as well as a significant natural gas processing facility. At the time of the acquisition most of the key components of the project, with the exception of the onshore pipeline, were either complete or in the latter stages of development. Vermilion's interest was acquired for cash consideration of $136.8 million with subsequent capital expenditures to December 31, 2012 of $302.6 million, primarily related to completion of the natural gas processing facility, sub-surface well work, and permitting and preparations for construction of the onshore pipeline. Furthermore, pursuant to the terms of the acquisition agreement, Vermilion made an additional payment to the vendor of $134.3 million (US$135 million) at the end of 2012. In 2011, approvals and permissions were granted for the onshore gas pipeline, with tunneling activities starting late in December of 2012. Vermilion expects to continue significant capital investment on this project over the next two years and currently expects to achieve initial gas production from this field in late 2014 and reach peak production levels in mid-2015.

ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

Unless otherwise noted, as of January 1, 2013, Vermilion will be required to adopt the following standards and amendments as issued by the IASB.

The adoption of the following standards is not expected to have a material impact on Vermilion's consolidated financial statements:

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

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

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

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

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

RISKS AND UNCERTAINTIES

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

Commodity Prices
Vermilion's operational results and financial condition is 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 producing regions.

Exchange Rates

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

Production and Sales Volumes

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

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

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

Interest Rates

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

Reserve Volumes

Vermilion's reserve volumes and related reserve values support the carrying value of Vermilion's oil and gas assets on the consolidated balance sheets and provide the basis to calculate the depletion of those assets. 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, NGLs and natural gas, operating expenses, well abandonment and salvage values, royalties and any 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.

Government Regulation 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 and decreases in production and increases in costs, potentially resulting in Vermilion being unable to fully execute its strategy. Governments may also amend or create new legislation and regulatory bodies may also amend regulations or impose additional requirements which could result in increased capital, operating and compliance costs.

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

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

FINANCIAL RISK MANAGEMENT

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

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

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect reported assets, liabilities, revenues and expenses, gains and losses, and disclosures of any possible contingencies. These estimates and assumptions are developed based on the best available information which management believed to be reasonable at the time such estimates and assumptions were made. As such, these assumptions are uncertain at the time estimates are made, and those estimates could change and result in a material impact on Vermilion's consolidated financial statements or financial performance. Estimates are reviewed by management on an ongoing basis, and as a result, certain of these estimates may change from period to period due to the availability of new information. Additionally, as a result of the unique circumstances of each jurisdiction that Vermilion operates in, the critical accounting estimates may affect one or more jurisdictions.

The following discussion outlines what management believes to be the most critical accounting policies involving the use of estimates and assumptions.

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

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

Asset Retirement Obligations
Vermilion's estimate of asset retirement obligations are based on past experience and current economic factors which management believes are reasonable. The estimates include assumptions of environmental regulations, legal requirements, technological advances, inflation and the timing of expenditures, all of which impact Vermilion's measurement of the present value of the obligations. Due to these estimates, the actual cost of the obligation may change from period to period due to new information being available. Several or all of these estimates are subject to change and such changes could have a material impact on the financial position and net earnings of Vermilion.

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

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

Taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which Vermilion and its subsidiaries operate are subject to change. Such changes can affect the timing of the reversal of temporary tax differences, the tax rates in effect when such differences reverse and Vermilion's ability to use tax losses and other credits in the future. The determination of deferred tax amounts recognized in the consolidated financial statements was based on management's assessment of the tax positions, including consideration of their technical merits and communications with tax authorities. The effect of a change in income tax rates or legislation on tax assets and liabilities is recognized in net earnings of Vermilion in the period in which the change is enacted.

OFF BALANCE SHEET ARRANGEMENTS

Vermilion has certain lease agreements that are entered into in the normal course of operations, all of which are operating leases and accordingly no asset or liability value has been assigned to the consolidated balance sheet as at December 31, 2012.

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

ENVIRONMENT, HEALTH AND SAFETY

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

Vermilion maintains 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 2012, Vermilion remained committed to the principles of the Responsible Canadian Energy™ program set out by the Canadian Association of Petroleum Producers. Responsible Canadian Energy™ is an association-wide performance reporting program to demonstrate progress in environmental, health, safety, and social performance.

Vermilion continued its commitment to reduce impacts to land, water and air, as policies and procedures demonstrating leadership in these areas, were maintained and further developed in 2012. Examples of accomplishments during the year included:

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

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

SENSITIVITIES

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

	Change in Cash Available for Dividends ($/share)	Change in Cash Available for Dividends ($MM)
Change in crude oil by US $1.00/bbl	0.09	8.9
Change in AECO prices by $0.10/mcf	0.02	1.7
Change in interest rate by one hundred basis points	0.08	8.0
Change in CDN $/US $ foreign exchange rate by $0.01	0.08	8.5
Change in CDN $/Euro foreign exchange rate by $0.01	0.01	0.7

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 discussion of 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 in April of 2013.

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, 2012, 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 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, 2012. The effectiveness of Vermilion's internal control over financial reporting as of December 31, 2012 has been audited by Deloitte LLP, as reflected in their report included in the 2012 audited annual financial statements 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, 2012, that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

NETBACKS

The following table includes segmented financial statement information on a per unit basis. Natural gas sales volumes have been converted on a basis of six thousand cubic feet of natural gas to one barrel of oil equivalent.

	Three Months Ended Dec 31, 2012			Year Ended Dec 31, 2012			Three Months Ended Dec 31, 2011	Year Ended Dec 31, 2011
	Oil & NGLs $/bbl	Natural Gas $/mcf	Total $/boe	Oil & NGLs $/bbl	Natural Gas $/mcf	Total $/boe	Total $/boe	Total $/boe
Canada								
Price	80.47	3.53	**58.80**	82.84	2.52	**54.89**	59.03	53.82
Realized hedging loss	-	-	**-**	(0.41)	-	**(0.24)**	(0.24)	(0.32)
Royalties	(8.36)	(0.14)	**(5.62)**	(9.50)	(0.05)	**(5.71)**	(7.29)	(7.25)
Transportation	(1.67)	(0.18)	**(1.46)**	(1.87)	(0.16)	**(1.50)**	(1.41)	(1.37)
Operating	(9.76)	(2.20)	**(11.01)**	(9.97)	(1.67)	**(10.00)**	(8.58)	(10.66)
Operating netback	60.68	1.01	**40.71**	61.09	0.64	**37.44**	41.51	34.22
France								
Price	104.78	11.47	**102.26**	107.67	10.82	**105.13**	112.71	107.38
Realized hedging loss	(1.10)	-	**(1.02)**	(2.92)	-	**(2.75)**	(3.50)	(3.99)
Royalties	(5.56)	(0.27)	**(5.29)**	(5.78)	(0.26)	**(5.53)**	(6.58)	(6.38)
Transportation	(2.32)	-	**(2.16)**	(2.37)	-	**(2.23)**	(4.03)	(3.35)
Operating	(16.73)	(1.00)	**(15.97)**	(15.02)	(2.06)	**(14.86)**	(15.51)	(15.55)
Operating netback	79.07	10.20	**77.82**	81.58	8.50	**79.76**	83.09	78.11
Netherlands								
Price	98.89	10.08	**60.96**	99.44	9.70	**58.69**	62.95	57.51
Operating	-	(1.88)	**(11.14)**	-	(1.53)	**(9.10)**	(9.59)	(8.65)
Operating netback	98.89	8.20	**49.82**	99.44	8.17	**49.59**	53.36	48.86
Australia								
Price	115.22	-	**115.22**	117.03	-	**117.03**	108.00	111.16
Realized hedging loss	(1.75)	-	**(1.75)**	(0.55)	-	**(0.55)**	(4.55)	(4.94)
Operating	(24.97)	-	**(24.97)**	(21.47)	-	**(21.47)**	(17.00)	(15.60)
PRRT [1]	(4.11)	-	**(4.11)**	(26.33)	-	**(26.33)**	(30.46)	(33.23)
Operating netback	84.39	-	**84.39**	68.68	-	**68.68**	55.99	57.39
Total Company								
Price	96.74	7.15	**78.40**	101.07	6.17	**79.51**	81.60	80.29
Realized hedging loss	(0.77)	-	**(0.51)**	(1.41)	-	**(0.93)**	(1.81)	(2.20)
Royalties	(5.63)	(0.08)	**(3.88)**	(5.64)	(0.04)	**(3.82)**	(4.45)	(4.22)
Transportation	(1.60)	(0.35)	**(1.77)**	(1.58)	(0.36)	**(1.77)**	(2.08)	(1.99)
Operating	(15.38)	(1.98)	**(14.18)**	(14.79)	(1.63)	**(13.10)**	(12.01)	(12.64)
PRRT [1]	(0.79)	-	**(0.52)**	(6.65)	-	**(4.41)**	(6.39)	(7.71)
Operating netback	72.57	4.74	**57.54**	71.00	4.14	**55.48**	54.86	51.53
General and administration			**(2.89)**			**(3.21)**	(2.89)	(3.47)
Interest expense			**(2.49)**			**(2.03)**	(1.89)	(1.94)
Realized foreign exchange gain			**0.81**			**0.21**	0.37	0.08
Other income (expense)			**0.08**			**(0.55)**	0.07	0.07
Current income taxes [1]			**(6.98)**			**(8.94)**	(9.92)	(9.34)
Fund flows netback			**46.07**			**40.96**	40.60	36.93
Accretion			**(1.99)**			**(1.69)**	(1.72)	(1.70)
Depletion and depreciation			**(21.66)**			**(21.72)**	(19.24)	(18.42)
Impairments			**-**			**(4.83)**	(19.10)	(5.01)
Gain on acquisition			**-**			**3.33**	-	-
Deferred taxes			**(3.75)**			**1.42**	5.42	3.60
Unrealized other (expense) income			**(0.23)**			**(0.09)**	0.17	(0.16)
Unrealized foreign exchange gain (loss)			**4.50**			**(0.32)**	(7.41)	(0.86)
Unrealized gain (loss) on derivative instruments			**1.56**			**0.42**	(2.90)	(0.24)
Equity based compensation			**(6.01)**			**(3.46)**	(4.79)	(3.01)
Earnings netback			**18.49**			**14.02**	(8.97)	11.13

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

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

Loren M. Leiker [5]
Houston, Texas

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 AND SPECIAL MEETING
May 1, 2013 at 1:30 p.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

Anthony Marino, P.Eng.
Executive Vice President & COO

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

Terry Hergott, CMA
Vice President Marketing

Daniel Goulet, P.Eng.
Director Corporate HSE

Cameron A. Hercus, MSc
Director Exploration and New Growth

Michael Kaluza, P.Eng.
Director Canada Business Unit

Dean N. Morrison, CFA
Director Investor Relations

Mike Prinz
Director Information Technology

Gerardo Rivera
Director Strategy and Portfolio Management

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

EUROPE

Gerard Schut, P.Eng.
Vice President European Operations

David Burghardt, P.Eng.
Interim Managing Director France Business Unit

Neil Wallace
Managing Director Netherlands Business Unit

AUSTRALIA

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

AUDITORS
Deloitte LLP
Calgary, Alberta

BANKERS
The Toronto-Dominion Bank
Calgary, Alberta

Bank of Montreal
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

National Bank of Canada
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

Citibank N.A., Canadian Branch
Citibank Canada
Calgary, Alberta

Wells Fargo Bank N.A., London Branch
London, England

La Caisse Centrale Desjardins du Québec
Montréal, Quebec

HSBC Bank Canada
Calgary, Alberta

JPMorgan Chase Bank, N.A., Toronto Branch
Toronto, Ontario

EVALUATION ENGINEERS
GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL
Norton Rose Canada LLP
Calgary, Alberta

TRANSFER AGENT
Computershare Trust Company of Canada

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange ("VET")
The New York Stock Exchange ("VET")

INVESTOR RELATIONS
Dean Morrison, Director Investor Relations

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EXHIBIT 99.3

VERMILION ENERGY INC.
2012 AUDITED ANNUAL FINANCIAL STATEMENTS



MANAGEMENT'S REPORT TO SHAREHOLDERS

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Vermilion Energy Inc. are the responsibility of management and have been approved by the Board of Directors of Vermilion Energy Inc. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes to the consolidated financial statements and are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Where necessary, management has made informed judgements and estimates of transactions that were not yet completed at the balance sheet date. Financial information throughout the Annual Report is consistent with the consolidated financial statements.

Management ensures the integrity of the consolidated 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 consolidated financial statements. Deloitte LLP, Vermilion's external auditors, 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 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 external Auditor's Report 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. Based on this evaluation, 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, 2012. The effectiveness of Vermilion's internal control over financial reporting as of December 31, 2012 has been audited by Deloitte LLP, the Company's Independent Registered Chartered Accountants, who also audited the Company's consolidated financial statements for the year ended December 31, 2012.

(Signed "Lorenzo Donadeo")

Lorenzo Donadeo
President & Chief Executive Officer

(Signed "Curtis W. Hicks")

Curtis W. Hicks
Executive Vice President & Chief Financial Officer

February 28, 2013

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, 2012 and 2011, and the consolidated statements of net earnings and comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Vermilion Energy Inc. and subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

(Signed "Deloitte LLP")

Independent Registered Chartered Accountants

February 28, 2013
Calgary, Canada

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Shareholders and Board of Directors 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, 2012, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. 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 International Financial Reporting Standards, 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, 2012, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2012 of the Company and our report dated February 28, 2013 expressed an unqualified opinion on those financial statements.

(Signed "Deloitte LLP")

Independent Registered Chartered Accountants

February 28, 2013
Calgary, Canada

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF CANADIAN DOLLARS)

	Note	December 31, 2012	December 31, 2011
ASSETS			
Current			
Cash and cash equivalents	18	**102,125**	234,507
Accounts receivable		**180,064**	176,820
Crude oil inventory		**25,719**	13,885
Derivative instruments	14	**2,086**	186
Prepaid expenses		**10,508**	10,261
		320,502	435,659
Deferred taxes	10	**193,354**	175,545
Exploration and evaluation assets	6	**117,161**	92,301
Capital assets	5	**2,445,240**	2,031,682
		3,076,257	2,735,187
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**300,682**	297,756
Dividends payable	11	**18,836**	18,322
Derivative instruments	14	**8,484**	11,568
Income taxes payable		**27,709**	36,407
Amount due pursuant to acquisition	8	**-**	127,131
		355,711	491,184
Derivative instruments	14	**-**	767
Long-term debt	9	**642,022**	373,436
Asset retirement obligations	7	**371,063**	310,531
Deferred taxes	10	**288,815**	227,668
		1,657,611	1,403,586
SHAREHOLDERS' EQUITY			
Shareholders' capital	11	**1,481,345**	1,368,145
Contributed surplus		**69,581**	56,468
Accumulated other comprehensive loss		**(32,409)**	(33,387)
Deficit		**(99,871)**	(59,625)
		1,418,646	1,331,601
		3,076,257	2,735,187

APPROVED BY THE BOARD

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

W. Kenneth Davidson, Director Lorenzo Donadeo, Director

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

	Note	Year Ended December 31, 2012	Year Ended December 31, 2011
REVENUE			
Petroleum and natural gas sales		**1,083,103**	1,031,570
Royalties		**(52,084)**	(54,235)
Petroleum and natural gas revenue		**1,031,019**	977,335
EXPENSES			
Operating	22	**178,442**	162,384
Transportation		**24,113**	25,539
Equity based compensation	12	**47,104**	38,667
Loss on derivative instruments	14	**6,986**	31,340
Interest expense		**27,586**	24,967
General and administration	22	**43,773**	44,583
Foreign exchange loss		**1,546**	9,998
Other expense	4	**8,751**	1,155
Accretion	7	**23,040**	21,889
Depletion and depreciation	5, 6	**295,943**	236,708
Impairments	5	**65,800**	64,400
Gain on acquisition	4	**(45,309)**	-
		677,775	661,630
EARNINGS BEFORE INCOME TAXES		**353,244**	315,705
INCOME TAXES	10		
Deferred		**(19,291)**	(46,210)
Current		**181,913**	219,094
		162,622	172,884
NET EARNINGS		**190,622**	142,821
OTHER COMPREHENSIVE INCOME (LOSS)			
Currency translation adjustments		**978**	(1,810)
COMPREHENSIVE INCOME		**191,600**	141,011
NET EARNINGS PER SHARE	13		
Basic		**1.94**	1.57
Diluted		**1.92**	1.55
WEIGHTED AVERAGE SHARES OUTSTANDING ('000s)	13		
Basic		**98,016**	90,878
Diluted		**99,294**	92,272

CONSOLIDATED STATEMENTS OF CASH FLOWS
(THOUSANDS OF CANADIAN DOLLARS)

	Note	Year Ended December 31, 2012	Year Ended December 31, 2011
OPERATING			
Net earnings		**190,622**	142,821
Adjustments:			
Accretion	7	**23,040**	21,889
Depletion and depreciation	5, 6	**295,943**	236,708
Impairments	5	**65,800**	64,400
Gain on acquisition	4	**(45,309)**	-
Unrealized (gain) loss on derivative instruments	14	**(5,751)**	3,040
Equity based compensation	12	**47,104**	38,667
Unrealized foreign exchange loss		**4,350**	11,022
Unrealized other expense		**1,220**	1,999
Deferred taxes	10	**(19,291)**	(46,210)
Asset retirement obligations settled	7	**(13,739)**	(23,071)
Changes in non-cash operating working capital	15	**(47,409)**	(4,173)
Cash flows from operating activities		**496,580**	447,092
INVESTING			
Drilling and development	5	**(413,221)**	(411,227)
Exploration and evaluation	6	**(39,317)**	(79,553)
Property acquisitions	4	**(106,184)**	(50,878)
Corporate acquisitions, net of cash acquired	4	**(63,482)**	-
Payment of amount due pursuant to acquisition	8	**(134,307)**	-
Changes in non-cash investing working capital	15	**16,588**	(6,068)
Cash flows used in investing activities		**(739,923)**	(547,726)
FINANCING			
Increase (decrease) in long-term debt	9	**265,395**	(150,001)
Issuance of senior unsecured notes	9	**-**	220,561
Issuance of shares pursuant to the dividend reinvestment plan	11	**36,339**	59,081
Cash dividends	11	**(187,484)**	(206,434)
Issuance of shares	11	**-**	252,004
Cash flows from financing activities		**114,250**	175,211
Foreign exchange loss on cash held in foreign currencies		**(3,289)**	(825)
Net change in cash and cash equivalents		**(132,382)**	73,752
Cash and cash equivalents, beginning of year		**234,507**	160,755
Cash and cash equivalents, end of year	18	**102,125**	234,507
Supplementary information for operating activities - cash payments			
Interest paid		**30,792**	18,907
Income taxes paid		**190,611**	242,249

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

	Note	Shareholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total Shareholders' Equity
Balances as at January 1, 2011		1,025,770	40,726	(31,577)	10,983	1,045,902
Net earnings		-	-	-	142,821	142,821
Currency translation adjustments		-	-	(1,810)	-	(1,810)
Equity based compensation expense		-	37,881	-	-	37,881
Dividends declared	11	-	-	-	(207,846)	(207,846)
Issuance of shares, net of deferred taxes	11	254,786	-	-	-	254,786
Issuance of shares pursuant to the dividend reinvestment plan	11	59,081	-	-	-	59,081
Vesting of equity based awards	11, 12	22,139	(22,139)	-	-	-
Share-settled dividends on vested equity based awards	11, 12	5,583	-	-	(5,583)	-
Shares issued for bonus plan	11	786	-	-	-	786
Balances as at December 31, 2011		1,368,145	56,468	(33,387)	(59,625)	1,331,601

	Note	Shareholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
Balances as at January 1, 2012		1,368,145	56,468	(33,387)	(59,625)	1,331,601
Net earnings		-	-	-	190,622	190,622
Currency translation adjustments		-	-	978	-	978
Equity based compensation expense		-	46,468	-	-	46,468
Dividends declared	11	-	-	-	(223,717)	(223,717)
Issuance of shares pursuant to the dividend reinvestment plan	11	72,058	-	-	-	72,058
Vesting of equity based awards	11, 12	33,355	(33,355)	-	-	-
Share-settled dividends on vested equity based awards	11, 12	7,151	-	-	(7,151)	-
Shares issued for bonus plan	11	636	-	-	-	636
Balances as at December 31, 2012		1,481,345	69,581	(32,409)	(99,871)	1,418,646

DESCRIPTION OF EQUITY RESERVES

Shareholders' capital
Represents the recognized amount for common shares when issued, net of equity issuance costs and deferred taxes.

Contributed surplus
Represents the recognized value of employee awards which are settled in shares. Once vested, the value of the awards is transferred to shareholders' capital.

Accumulated other comprehensive loss
Represents the cumulative income and expenses which are not recorded immediately in net earnings and are accumulated until an event triggers recognition in net earnings. The current balance consists of currency translation adjustments resulting from translating financial statements of subsidiaries with a foreign functional currency to Canadian dollars at period end rates.

Retained earnings (deficit)
Represents the cumulative net earnings less distributed earnings of Vermilion Energy Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012 AND 2011
(TABULAR AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE AND PER SHARE AMOUNTS)

1. BASIS OF PRESENTATION

Vermilion Energy Inc. (the "Company" or "Vermilion") is a corporation governed by the laws of the Province of Alberta and is actively engaged in the business of crude oil and natural gas exploration, development, acquisition and production.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of Vermilion on February 28, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

E&E assets are not depleted and are carried at cost until technical feasibility and commercial viability of the area can be determined. The technical feasibility and commercial viability of extracting the reserves is considered to be determinable when proven and probable reserves are identified. If proven and probable reserves are identified as recoverable, the related E&E costs are reclassified to Petroleum and Natural Gas ("PNG") assets pending an impairment test. If reserves are not found within the license area or the area is abandoned, the related E&E costs are amortized over a period not greater than five years.

Petroleum and Natural Gas Assets
Vermilion recognizes PNG assets at cost less accumulated depletion, depreciation and impairment losses. Directly attributable costs incurred for the drilling of development wells and for the construction of production facilities are capitalized together with the discounted value of estimated future costs of asset retirement obligations. When components of PNG assets are replaced, disposed of, or no longer in use, they are derecognized.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Impairment of Long-Lived Assets
E&E assets are tested for impairment when reclassified to PNG assets or when indicators of impairment are identified. If indicators of impairment are identified, E&E assets are tested for impairment as part of the group of Cash Generating Units ("CGU's") attributable to the jurisdiction in which the exploration area resides.

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

All derivative instruments have been classified as held for trading and are measured at fair value. A gain or loss arising from a change in the fair value is recognized in net earnings in the period in which it occurs.

Equity Based Compensation
Vermilion has long-term equity based compensation plans for directors, officers and employees of Vermilion and its subsidiaries. Equity based compensation expense is recognized in net 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.

The expense recognized is based on the grant date fair value of the awards and incorporates an estimate of the forfeiture rate based on historical vesting data. The grant date fair value of the awards is determined as the grant date closing price of Vermilion's common shares on the Toronto Stock Exchange, adjusted by the Company's estimate of the performance factor that will ultimately be achieved.

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes
Deferred taxes are calculated using the liability method of accounting. Under this method, deferred tax is recognized for the estimated effect of any temporary differences between the amounts recognized on Vermilion's consolidated balance sheets and respective tax basis. This calculation uses enacted or substantively enacted tax rates that will be in effect when the temporary differences are expected to reverse. The effect of a change in tax rates on deferred taxes is recognized in net earnings in the period in which the related legislation is substantively enacted.

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

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

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

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

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

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

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

Income Taxes
Tax interpretations, regulations, and legislation in the various jurisdictions in which Vermilion and its subsidiaries operate are subject to change and interpretation. Such changes can affect the timing of the reversal of temporary tax differences, the tax rates in effect when such differences reverse and Vermilion's ability to use tax losses and other credits in the future. The Company's income tax filings are subject to audit by taxation authorities in numerous jurisdictions and the results of such audits may increase or decrease our tax liability. The determination of current and deferred tax amounts recognized in the consolidated financial statements was based on management's assessment of the tax positions, which includes consideration of their technical merits, communications with tax authorities and management's view of the most likely outcome.

Unless otherwise noted, as of January 1, 2013, Vermilion will be required to adopt the following standards and amendments as issued by the IASB.

3. CHANGES TO ACCOUNTING PRONOUNCEMENTS

The adoption of the following standards are not expected to have a material impact on Vermilion's consolidated financial statements:

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

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

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

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

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

4. BUSINESS COMBINATION

Property acquisition:

On January 19, 2012, Vermilion acquired, through its wholly owned subsidiaries, working interests in six producing fields located in the Paris and Aquitaine basins in France, for total consideration of $106.1 million before closing adjustments. The acquired working interests expanded Vermilion's existing interests and was a natural addition to the Company's existing France asset base.

The acquired assets include land, wells, facilities, and inventory located in the Company's core producing basins in France. The fair value of the acquired identifiable assets and liabilities assumed at the date of acquisition was $151.4 million. A gain of $45.3 million was recognized as a result of an increase in the fair value of the acquired petroleum and natural gas reserves from the time when the acquisition was negotiated to the acquisition date. The increase resulted from a change in the underlying commodity price forecasts used to determine the fair value of the acquired reserves.

The acquisition has been accounted for as a business combination with the fair value of the assets acquired and liabilities assumed at the date of acquisition summarized as follows:

($M)	**Consideration**
Cash paid to vendor	106,115
Total consideration	106,115

($M)	**Allocation of Consideration**
Petroleum and natural gas assets	206,191
Asset retirement obligations assumed	(27,518)
Deferred tax liabilities	(23,151)
Acquired non-cash working capital deficiencies	(4,098)
Net assets acquired	151,424
Gain on acquisition	(45,309)
Net assets acquired, net of gain on acquisition	106,115

4. BUSINESS COMBINATION (Continued)

Transfer taxes associated with this acquisition totalling $8.5 million have been excluded from the consideration and have been recognized as an expense in the year ended December 31, 2012, within “Other expense” in the consolidated statements of net earnings and comprehensive income.

The results of operations from the assets acquired have been included in Vermilion's consolidated financial statements beginning January 19, 2012 and have contributed revenues of $104.9 million and operating income of $93.4 million for the year ended December 31, 2012.

Had the acquisition occurred on January 1, 2012, management estimates that consolidated revenues would have increased by an additional $6.6 million and consolidated operating income would have increased by $4.8 million for the year ended December 31, 2012. In determining the pro-forma amounts, management has assumed that the fair value adjustments, determined provisionally, that arose at the date of acquisition would have been the same if the acquisition had occurred on January 1, 2012. It is impracticable to derive all amounts necessary to determine the increase to net earnings from the acquired working interests as operations were immediately merged with Vermilion’s operations.

Corporate acquisition:

On December 21, 2012, Vermilion acquired, through its wholly owned subsidiaries, 100% of the shares of ZaZa Energy France S.A.S for total consideration of $74.9 million. The acquired company holds operating interests covering approximately 24,300 acres with 100% working interests in the Saint Firmin, Chateaurenard, Courtenay, Chuelles, and Charmottes fields in the Paris Basin. The acquired company expands Vermilion’s existing operations in France and is aligned with Vermilion’s objective to consolidate assets within the Company’s core operating areas.

The acquisition has been accounted for as a business combination with the fair value of the assets acquired and liabilities assumed at the date of acquisition summarized as follows:

($M)	**Consideration**
Cash paid to vendor	74,947
Total consideration	74,947

($M)	**Allocation of Consideration**
Petroleum and natural gas assets	136,297
Asset retirement obligations assumed	(22,623)
Deferred tax liabilities	(40,046)
Cash acquired	11,465
Acquired non-cash working capital	(10,146)
Net assets acquired	74,947

The results of operations from the assets acquired have been included in Vermilion's consolidated financial statements beginning December 21, 2012 and have contributed revenues of $0.8 million and operating income of $0.6 million for the year ended December 31, 2012.

Had the acquisition occurred on January 1, 2012, management estimates that consolidated revenues would have increased by an additional $29.9 million and consolidated operating income would have increased by $23.4 million for the year ended December 31, 2012. In determining the pro-forma amounts, management has assumed that the fair value adjustments, determined provisionally, that arose at the date of acquisition would have been the same if the acquisition had occurred on January 1, 2012. It is impracticable to derive all amounts necessary to determine the increase to net earnings from the acquired working interests as operations were immediately merged with Vermilion’s operations.

5. CAPITAL ASSETS

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

($M)	Petroleum and Natural Gas Assets	Furniture and Office Equipment	Total Capital Assets
Balance at January 1, 2011	1,802,422	17,130	1,819,552
Additions	408,810	2,417	411,227
Property acquisitions	50,878	-	50,878
Borrowing costs capitalized	9,923	-	9,923
Changes in estimate for asset retirement obligations	45,267	-	45,267
Depletion and depreciation	(228,562)	(4,414)	(232,976)
Impairments	(64,400)	-	(64,400)
Effect of movements in foreign exchange rates	(7,727)	(62)	(7,789)
Balance at December 31, 2011	2,016,611	15,071	2,031,682
Additions	407,973	5,248	413,221
Transfers from exploration and evaluation assets	10,528	-	10,528
Property acquisitions	206,260	-	206,260
Corporate acquisitions	136,297	-	136,297
Borrowing costs capitalized	9,994	-	9,994
Changes in estimate for asset retirement obligations	1,334	-	1,334
Depletion and depreciation [1]	(289,194)	(5,165)	(294,359)
Impairments	(65,800)	-	(65,800)
Effect of movements in foreign exchange rates	(3,882)	(35)	(3,917)
Balance at December 31, 2012	2,430,121	15,119	2,445,240
Cost	2,427,848	30,148	2,457,996
Accumulated depletion and depreciation	(411,237)	(15,077)	(426,314)
Carrying amount at December 31, 2011	2,016,611	15,071	2,031,682
Cost	3,260,772	35,268	3,296,040
Accumulated depletion and depreciation	(830,651)	(20,149)	(850,800)
Carrying amount at December 31, 2012	2,430,121	15,119	2,445,240

[1] Depletion and depreciation above excludes depletion recorded as a component of crude oil inventory.

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

Capitalized overhead and borrowing costs
During the year ended December 31, 2012, Vermilion capitalized $4.8 million (2011 - $4.5 million) of overhead costs directly attributable to PNG activities and $10.0 million (2011 - $9.9 million) of borrowing costs associated with the unwinding of the discount on the amount due pursuant to the Corrib acquisition (Note 8).

Impairments
On a quarterly basis, Vermilion performs an assessment as to whether any CGUs have indicators of impairment. When indicators of impairment are identified, Vermilion assesses the recoverable amount of the applicable CGU based on the estimated fair value less costs to sell as at the reporting date. The estimated fair value takes into account the most recent commodity price forecasts, expected production and estimated costs of development.

During the years ended December 31, 2011 and 2012, Vermilion performed quarterly assessments as to whether any cash generating units (“CGU”) had indicators of impairment.

For the three months ended December 31, 2011 and March 31, 2012, Vermilion recorded an impairment charge of $64.4 million and $65.8 million, respectively, related to conventional deep natural gas and shallow coal bed methane gas plays. These impairment charges were a result of declines in the price forecasts for natural gas in Canada which decreased the expected cash flows from the CGU’s.

5. CAPITAL ASSETS (Continued)

Benchmark prices used in the December 31, 2011 and March 31, 2012 calculations of recoverable amounts were determined by multiplying the mix of oil, natural gas and NGLs inherent in the reserves of the conventional deep natural gas and shallow coal bed methane CGUs by the price forecasts for each year. The blended price per barrel of oil equivalent (BOE) forecasts were:

$/BOE	March 31, 2012	December 31, 2011
2012	27.01	31.28
2013	33.46	34.91
2014	35.78	37.12
2015	38.23	39.52
2016	40.68	41.95
2017	43.13	44.34
2018	45.61	45.82
2019	46.53	46.79
2020	47.51	47.72
2021	48.44	48.71
Average increase thereafter	2.0%	2.0%

6. EXPLORATION AND EVALUATION ASSETS

The following table reconciles the change in Vermilion's exploration and evaluation assets:

($M)	Exploration and Evaluation Assets
Balance at January 1, 2011	17,157
Additions	79,553
Depreciation	(3,732)
Effect of movements in foreign exchange rates	(677)
Balance at December 31, 2011	92,301
Additions	39,317
Transfers to petroleum and natural gas assets	(10,528)
Depreciation	(3,485)
Effect of movements in foreign exchange rates	(444)
Balance at December 31, 2012	117,161
Cost	96,773
Accumulated depreciation	(4,472)
Carrying value at December 31, 2011	92,301
Cost	125,165
Accumulated depreciation	(8,004)
Carrying value at December 31, 2012	117,161

7. ASSET RETIREMENT OBLIGATIONS

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

($M)	Asset Retirement Obligations
Balance at January 1, 2011	267,389
Additional obligations recognized	8,612
Changes in estimates for existing obligations	(4,364)
Obligations settled	(23,071)
Accretion	21,889
Changes in discount rates	41,019
Effect of movements in foreign exchange rates	(943)
Balance at December 31, 2011	310,531
Additional obligations recognized	55,228
Changes in estimates for existing obligations	(26,560)
Obligations settled	(13,739)
Accretion	23,040
Changes in discount rates	22,807
Effect of movements in foreign exchange rates	(244)
Balance at December 31, 2012	371,063

Vermilion has estimated the net present value of its asset retirement obligations to be $371.1 million as at December 31, 2012 (December 31, 2011 - $310.5 million) based on a total undiscounted future liability, after inflation adjustment, of $1.3 billion (December 31, 2011 - $1.2 billion). These payments are expected to be made between 2013 and 2061. Vermilion calculated the present value of the obligations using discount rates between 5.8% and 7.5% (2011 - between 6.3% and 7.6%) to reflect the market assessment of the time value of money as well as risks specific to the liabilities that have not been included in the cash flow estimates. Inflation rates used in determining the cash flow estimates were between 1.4% and 2.5% (2011 - between 1.5% and 2.6%).

At least once per year, Vermilion reviews its estimates of the expected costs to reclaim the net interest in its wells and facilities. The resulting changes are categorized as changes in estimates for existing obligations in the table above. The significant changes in the liability for the year ended December 31, 2012 relates primarily to the asset retirement obligations assumed in France pursuant to the acquisitions completed in the first and fourth quarters.

8. AMOUNT DUE PURSUANT TO ACQUISITION

On July 30, 2009, Vermilion completed the acquisition of an 18.5% non-operated interest in the Corrib gas field located off the northwest coast of Ireland. Pursuant to the terms of the acquisition agreement, Vermilion made a final payment to the vendor of US$135 million on December 31, 2012.

As at December 31, 2011, this amount was classified as a current liability. The discount rate used to present value this obligation was 8%, which was Vermilion's best estimate of the interest rate that would result from an arm's length financing transaction associated with the purchase of these assets.

9. LONG-TERM DEBT

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

	As At	
($M)	**Dec 31, 2012**	**Dec 31, 2011**
Revolving credit facility	**419,784**	152,086
Senior unsecured notes	**222,238**	221,350
Long-term debt	**642,022**	373,436

Revolving Credit Facility

At December 31, 2012, Vermilion had in place a bank revolving credit facility totalling $950 million, of which approximately $419.8 million was drawn. The facility, which matures in May of 2015, is fully revolving up to the date of maturity.

9. LONG-TERM DEBT (Continued)

The facility is extendable from time to time, but not more than once per year, for a period not longer than three years, at the option of the lenders and upon notice from Vermilion. If no extension is granted by the lenders, the amounts owing pursuant to the facility are repayable on the maturity date. This facility bears interest at a rate applicable to demand loans plus applicable margins. For the year ended December 31, 2012, the interest rate on the revolving credit facility was approximately 3.3% (2011 – 3.4%).

The amount available to Vermilion under this facility is reduced by outstanding letters of credit associated with Vermilion's operations totalling $49.2 million as at December 31, 2012 (December 31, 2011 - $3.7 million).

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

As at December 31, 2012, Vermilion was in compliance with its financial covenants.

Senior Unsecured Notes

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

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

10. INCOME TAXES

The net deferred income tax liability at December 31, 2012 and 2011 is comprised of the following:

	As At	
($M)	**Dec 31, 2012**	**Dec 31, 2011**
Deferred income tax liabilities:		
Capital assets	**(322,620)**	(264,700)
Partnership income deferral	**-**	(27,316)
Asset retirement obligations	**(45,362)**	(47,056)
Basis difference of investments	**(330)**	(413)
Unrealized foreign exchange	**(22,603)**	(21,589)
Other	**(11,502)**	(2,026)
Deferred income tax assets:		
Derivative contracts	**1,600**	3,037
Capital assets	**67,310**	60,202
Non-capital losses	**167,230**	174,143
Cumulative eligible capital	**-**	4,618
Asset retirement obligations	**69,359**	68,977
Other	**1,457**	-
Net deferred income tax liability	**(95,461)**	(52,123)
Comprised of:		
Deferred income tax assets	**193,354**	175,545
Deferred income tax liability	**(288,815)**	(227,668)
Net deferred income tax liability	**(95,461)**	(52,123)

10. 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 25.0% (2011 - 26.5%), as follows:

	Year Ended	
($M)	**Dec 31, 2012**	**Dec 31, 2011**
Earnings before income taxes	**353,244**	315,705
Canadian corporate tax rate	**25.0%**	26.5%
Expected tax expense	**88,311**	83,662
Increase (decrease) in taxes resulting from:		
Petroleum resource rent tax rate (PRRT) differential [1]	**44,605**	61,010
Foreign tax rate differentials [1, 2]	**18,539**	11,164
Equity based compensation expense	**11,776**	10,246
Amended returns and changes to estimated tax pools	**(1,635)**	(7,537)
Changes in statutory tax rates and the estimated reversal rates associated with temporary differences	**7,506**	(98)
Adjustment for uncertain tax positions	**5,113**	3,427
Gain on acquisition	**(12,389)**	-
Adjustment for share issuance costs	**-**	2,782
Other non-deductible items	**796**	8,228
Provision for income taxes	**162,622**	172,884

[1] In Australia, current taxes include both corporate income tax rates and PRRT. Corporate income tax rates are applied at a rate of 30% and PRRT is applied at a rate of 40%.

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

11. SHAREHOLDERS' CAPITAL

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

Shareholders' Capital	**Number of Shares**	**Amount ($M)**
Balance as at January 1, 2011	88,998,242	1,025,770
Issuance of shares, net of deferred taxes	5,370,000	254,786
Issuance of shares pursuant to the dividend reinvestment plan	1,323,482	59,081
Vesting of equity based awards	608,073	22,139
Share-settled dividends on vested equity based awards	114,487	5,583
Shares issued for bonus plan	15,851	786
Balance as at December 31, 2011	96,430,135	1,368,145
Issuance of shares pursuant to the dividend reinvestment plan	1,630,258	72,058
Vesting of equity based awards	904,210	33,355
Share-settled dividends on vested equity based awards	157,137	7,151
Shares issued for bonus plan	13,167	636
Balance as at December 31, 2012	99,134,907	1,481,345

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

Dividends

Dividends declared to shareholders for the year ended December 31, 2012 were $223.7 million (December 31, 2011, $207.8 million). Dividends are determined by the Board of Directors and are paid monthly. Vermilion has a dividend reinvestment plan which allows eligible holders of common shares to purchase additional common shares at a 5% discount to market by reinvesting their cash dividends. Subsequent to the end of the period and prior to the consolidated financial statements being authorized for issue on February 28, 2013, Vermilion declared dividends totalling $39.7 million or $0.20 per share for each of January and February of 2013.

11. SHAREHOLDERS' CAPITAL (Continued)

Equity Issuance

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

12. EQUITY BASED COMPENSATION

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

Number of Awards	**2012**	**2011**
Opening balance	**1,750,055**	1,683,776
Granted	**681,383**	566,425
Vested	**(596,423)**	(434,150)
Forfeited	**(145,061)**	(65,996)
Closing balance	**1,689,954**	1,750,055

The grant date fair value of the awards is determined as the grant date closing price of Vermilion's common shares on the Toronto Stock Exchange, adjusted by the Company's estimate of the performance factor that will ultimately be achieved. Dividends, which notionally accrue to the awards during the vesting period, are not included in the determination of grant date fair values. For the year ended December 31, 2012, the awards granted had a weighted average fair value of $61.08 (2011 - $47.05).

The performance factor is determined by the Board of Directors after consideration of a number of key corporate performance measures including, but not limited to, shareholder return, capital efficiency metrics, production and reserves growth and safety performance.

The expense recognized is based on the grant date fair value of the awards and incorporates an estimate of forfeiture rate based on historical vesting data. For the year ended December 31, 2012, Vermilion incorporated an estimated forfeiture rate of 5.37% (2011 - 5.29%). Equity based compensation expense of $46.5 million was recorded during the year ended December 31, 2012 (2011 - $37.9 million) related to the VIP.

13. PER SHARE AMOUNTS

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

	Year Ended	
($M except per share amounts)	**Dec 31, 2012**	**Dec 31, 2011**
Net earnings [1]	**190,622**	142,821
Basic weighted average shares outstanding [2]	**98,016**	90,878
Dilutive impact of equity based award plans	**1,278**	1,394
Diluted weighted average shares outstanding [3]	**99,294**	92,272
Basic earnings per share ([1] ÷ [2])	**1.94**	1.57
Diluted earnings per share ([1] ÷ [3])	**1.92**	1.55

14. DERIVATIVE INSTRUMENTS

The nature of Vermilion's operations results in exposure to fluctuations in commodity prices, interest rates and foreign currency exchange rates. Vermilion monitors and, when appropriate, uses derivative financial instruments to manage its exposure to these fluctuations. All transactions of this nature entered into by Vermilion are related to an underlying financial position or to future crude oil and natural gas production. Vermilion does not use derivative financial instruments for speculative purposes. Vermilion has elected not to designate any of its derivative financial instruments as accounting hedges and thus accounts for changes in fair value in net earnings at each reporting period. Vermilion has not obtained collateral or other security to support its financial derivatives as management reviews the creditworthiness of its counterparties prior to entering into derivative contracts.

During the normal course of business, Vermilion may enter into fixed price arrangements to sell a portion of its production or purchase commodities for operational use. Vermilion does not apply fair value accounting on these contracts as they were entered into and continue to be held for the sale of production or operational use in accordance with the Company's expected requirements.

14. DERIVATIVE INSTRUMENTS (Continued)

The following table summarizes Vermilion's outstanding risk management positions as at December 31, 2012:

Risk Management - Oil	Funded Cost (US $/bbl)	bbls/d	Strike Price(s) US $/bbl
Swap - WTI			
January 2013 - June 2013 [1]	-	1,000	101.18
January 2013 - December 2013	-	2,000	93.04
Collar - WTI			
January 2013 - March 2013	-	650	85.00 - 97.65
April 2013 - June 2013	-	250	88.00 - 109.43
Collar - Dated Brent			
January 2013 - March 2013	-	1,550	103.97 - 118.81
January 2013 - March 2013	1.00	250	95.00 - 132.15
January 2013 - June 2013	-	2,000	90.00 - 105.28
January 2013 - December 2013	-	3,500	96.14 - 107.34
April 2013 - June 2013	-	250	105.00 - 114.65
July 2013 - December 2013	-	500	95.00 - 109.10

[1] The counterparties to the swaps have the option on June 28, 2013 to extend the swap to December 31, 2013 at the contracted volume and price.

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

	Year Ended	
($M)	**Dec 31, 2012**	**Dec 31, 2011**
Fair value of contracts, beginning of year	**(12,149)**	(9,109)
Reversal of opening unrealized loss on contracts settled during the year	**12,149**	8,494
Realized loss on contracts settled during the year	**(12,737)**	(28,300)
Unrealized loss during the year on contracts outstanding at the end of the year	**(6,398)**	(11,534)
Net payment to counterparties on contract settlements during the year	**12,737**	28,300
Fair value of contracts, end of year	**(6,398)**	(12,149)
Comprised of:		
Current derivative asset	**2,086**	186
Current derivative liability	**(8,484)**	(11,568)
Non-current derivative liability	**-**	(767)
Fair value of contracts, end of year	**(6,398)**	(12,149)

The loss on derivative instruments for 2012 and 2011 are comprised of the following:

	Year Ended	
($M)	**Dec 31, 2012**	**Dec 31, 2011**
Realized loss on contracts settled during the year	**12,737**	28,300
Reversal of opening unrealized loss on contracts settled	**(12,149)**	(8,494)
Unrealized loss during the year on contracts outstanding at year-end	**6,398**	11,534
Loss on derivative instruments	**6,986**	31,340

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Year Ended	
($M)	**Dec 31, 2012**	**Dec 31, 2011**
Changes in:		
Accounts receivable	**(818)**	(29,491)
Crude oil inventory	**(11,661)**	(3,178)
Prepaid expenses	**2,375**	425
Accounts payable and accrued liabilities and income taxes payable	**(18,836)**	22,282
Movements in foreign exchange rates	**(1,881)**	(279)
Changes in non-cash working capital	**(30,821)**	(10,241)
Changes in non-cash operating working capital	**(47,409)**	(4,173)
Changes in non-cash investing working capital	**16,588**	(6,068)
Changes in non-cash working capital	**(30,821)**	(10,241)

16. SEGMENTED INFORMATION

Vermilion has operations principally in Canada, France, the Netherlands, Australia and Ireland. Vermilion's operating activities in each country relate solely to the exploration, development and production of petroleum and natural gas. Vermilion's chief operating decision maker reviews the financial performance of the Company by assessing the operating income of each country individually. Operating income is a profit or loss measure defined by Vermilion as oil and gas sales to external customers less royalties and production costs, which include realized losses on derivative instruments, transportation expense and operating expense.

The following segment information has been prepared by segregating the results into the geographic areas in which Vermilion operates. The following amounts include transactions between segments, which are recorded at fair value at the date of recognition.

	Year Ended December 31, 2012					
($M)	**Canada**	**France**	**Netherlands**	**Australia**	**Ireland**	**Total**
Total assets	1,178,264	868,300	156,620	296,169	576,904	3,076,257
Drilling and development	236,634	47,382	21,052	49,389	58,764	413,221
Exploration and evaluation	39,045	-	272	-	-	39,317
Operating Income (Loss)						
Oil and gas sales to external customers	304,202	388,410	123,528	266,963	-	1,083,103
Royalties	(31,667)	(20,417)	-	-	-	(52,084)
Revenue from external customers	272,535	367,993	123,528	266,963	-	1,031,019
Realized loss on derivative instruments	(1,337)	(10,152)	-	(1,248)	-	(12,737)
Transportation expense	(8,321)	(8,236)	-	-	(7,556)	(24,113)
Operating expense	(55,418)	(54,907)	(19,149)	(48,968)	-	(178,442)
Operating income (loss)	207,459	294,698	104,379	216,747	(7,556)	815,727
Corporate income taxes	1,582	63,006	25,648	31,607	-	121,843
PRRT	-	-	-	60,070	-	60,070
Current income taxes	1,582	63,006	25,648	91,677	-	181,913

16. SEGMENTED INFORMATION (Continued)

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

Reconciliation of operating income to net earnings

	Year Ended	
($M)	**Dec 31, 2012**	**Dec 31, 2011**
Operating income	**815,727**	761,112
Equity based compensation	**(47,104)**	(38,667)
Unrealized gain (loss) on derivative instruments	**5,751**	(3,040)
Interest expense	**(27,586)**	(24,967)
General and administration	**(43,773)**	(44,583)
Foreign exchange loss	**(1,546)**	(9,998)
Other expense	**(8,751)**	(1,155)
Accretion	**(23,040)**	(21,889)
Depletion and depreciation	**(295,943)**	(236,708)
Impairments	**(65,800)**	(64,400)
Gain on acquisition	**45,309**	-
Earnings before income taxes	**353,244**	315,705
Income taxes	**(162,622)**	(172,884)
Net earnings	**190,622**	142,821

Vermilion has two major customers with revenues in excess of 10% within the France and Netherlands segments. Sales to the major customer in the France segment for year ended December 31, 2012 were $380.6 million (2011 - $232.0 million). All sales in the Netherlands segment were to one customer.

17. COMMITMENTS

Vermilion had the following future commitments associated with its operating leases as at December 31, 2012:

($M)	**Less than 1 year**	**1 - 3 years**	**4 - 5 years**	**After 5 years**	**Total**
Payments by period	15,552	28,318	23,204	69,554	136,628

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

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents was comprised of the following:

($M)	Dec 31, 2012	Dec 31, 2011
Money on deposit with banks	**78,396**	220,158
Short-term investments	**23,729**	14,349
Cash and cash equivalents	**102,125**	234,507

19. CAPITAL DISCLOSURES

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

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

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

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

	Year Ended	
($M except as indicated)	**Dec 31, 2012**	**Dec 31, 2011**
Long-term debt	**642,022**	373,436
Current liabilities	**355,711**	491,184
Current assets	**(320,502)**	(435,659)
Net debt [1]	**677,231**	428,961
Cash flows from operating activities	**496,580**	447,092
Changes in non-cash operating working capital	**47,409**	4,173
Asset retirement obligations settled	**13,739**	23,071
Fund flows from operations [2]	**557,728**	474,336
Ratio of net debt to fund flows from operations ([1] ÷ [2])	**1.2**	0.9

The ratio of net debt to fund flows from operations was higher in the current year as compared to the prior year primarily as a result of an increase in net debt. The increase in net debt was the result of the two acquisitions that occurred in France during the first and fourth quarter of 2012 and capital expenditures pertaining to the Ireland assets, which are currently under development.

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

20. FINANCIAL INSTRUMENTS

Classification of Financial Instruments

The following table summarizes information relating to Vermilion's financial instruments as at December 31, 2012 and December 31, 2011:

				As at December 31, 2012		As at December 31, 2011		
Class of financial instrument	**Consolidated balance sheet caption**	**Accounting designation**	**Related caption on Statement of Net Earnings**	**Carrying value ($M)**	**Fair value ($M)**	**Carrying value ($M)**	**Fair value ($M)**	**Fair value measurement hierarchy**
Cash	Cash and cash equivalents	HFT	Gains and losses on foreign exchange are included in foreign exchange loss	102,125	102,125	234,507	234,507	Level 1
Receivables	Accounts receivable	LAR	Gains and losses on foreign exchange are included in foreign exchange loss and impairments are recognized as general and administration expense	180,064	180,064	176,820	176,820	Not applicable
Derivative assets	Derivative instruments	HFT	Loss on derivative instruments	2,086	2,086	186	186	Level 2
Derivative liabilities	Derivative instruments	HFT	Loss on derivative instruments	(8,484)	(8,484)	(12,335)	(12,335)	Level 2
Payables	Accounts payable and accrued liabilities Dividends payable	OTH	Gains and losses on foreign exchange are included in foreign exchange loss	(319,518)	(319,518)	(316,078)	(316,078)	Not applicable
Payables	Amount due pursuant to acquisition	OTH	Gains and losses on foreign exchange are included in foreign exchange loss	-	-	(127,131)	(127,131)	Not applicable
Long-term debt	Long-term debt	OTH	Interest expense	(642,022)	(656,315)	(373,436)	(383,275)	Not applicable

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

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

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

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

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

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

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

Determination of Fair Values

The level in the fair value hierarchy into which the fair value measurements are categorized is determined on the basis of the lowest level input that is significant to the fair value measurement.

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

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

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

20. FINANCIAL INSTRUMENTS (Continued)

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 of the resulting amount. The discount rate which would be used to present value this obligation as at December 31, 2011 would not differ significantly from the discount rate originally used.

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

Nature and Extent of Risks Arising From Financial Instruments

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

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

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.

Currency risk:
Vermilion conducts business in foreign currencies in addition to Canadian dollars and accordingly is subject to currency risk associated with changes in foreign exchange rates in relation to cash and cash equivalents, receivables, payables and derivative assets and liabilities. The impact related to working capital is somewhat mitigated as a result of the offsetting effects of foreign exchange fluctuations on assets and liabilities. Vermilion monitors its exposure to currency risk and reviews whether the use of derivative financial instruments is appropriate to manage potential fluctuations in foreign exchange rates. During 2012, Vermilion did not use derivative financial instruments to manage potential fluctuations in foreign exchange rates.

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

Interest rate risk:
Vermilion's long-term debt is comprised of borrowings under the revolving credit facility and the Company's senior unsecured notes. Borrowings under the revolving credit facility bear interest at market rates plus applicable margins and as such changes in interest rates could result in an increase or decrease in the amount Vermilion pays to service this debt. The senior unsecured notes bear interest at a fixed 6.5% interest rate and as such, changes in prevailing interest rates would affect the fair value of these notes. However, as Vermilion does not intend to settle this debt prior to maturity, the notes are carried at amortized cost and changes in fair value do not affect the Company's net earnings.

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, 2012, Vermilion's maximum exposure to receivable credit risk was $182.2 million (December 31, 2011 - $177.0 million) which is the aggregate value of receivables and derivative assets at the balance sheet date. Vermilion's receivables are due from counterparties that have investment grade third party credit ratings or, in the absence of the availability of such ratings, have been satisfactorily reviewed by Vermilion for creditworthiness. Additionally, cash and cash equivalents consist of moneys on deposit and short-term investments which may be subject to counterparty credit risk. Vermilion mitigates this risk by transacting with North American institutions with high third party credit ratings.

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

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

20. FINANCIAL INSTRUMENTS (Continued)

The following table summarizes Vermilion's undiscounted non-derivative financial liabilities and their contractual maturities as at December 31, 2012 and December 31, 2011:

($M)	Due in one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and not later than five years
December 31, 2012	109,312	209,783	423	644,784
December 31, 2011	115,594	206,777	131,002	377,087

Market risk:
Vermilion's financial instruments are exposed to currency risk related to changes in foreign currency denominated financial instruments and commodity price risk related to outstanding derivative positions. The following table summarizes what the impact on comprehensive income before tax would be for the year ended December 31, 2012 and 2011 given changes in the relevant risk variables that Vermilion considers were reasonably possible at the balance sheet date. The impact on comprehensive income before tax associated with changes in these risk variables for assets and liabilities that are not considered financial instruments are excluded from this analysis. This analysis does not attempt to reflect any interdependencies between the relevant risk variables.

Risk ($M)	Description of change in risk variable	December 31, 2012 Before tax effect on comprehensive income 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, 2012	(6,476)
	Decrease in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on December 31, 2012	6,476
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, 2012	(1,971)
	Decrease in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on December 31, 2012	1,971
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, 2012	(1,167)
	Decrease in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on December 31, 2012	1,167
Commodity price risk	**Increase** in relevant oil reference price within option pricing models used to determine the fair value of financial derivative positions by US$5.00/bbl at December 31, 2012	(12,908)
	Decrease in relevant oil reference price within option pricing models used to determine the fair value of financial derivative positions by US$5.00/bbl at December 31, 2012	12,296
Interest rate risk	**Increase** in average Canadian prime interest rate by 100 basis points during the year ended December 31, 2012	(2,007)
	Decrease in average Canadian prime interest rate by 100 basis points during the year ended December 31, 2012	2,007

20. FINANCIAL INSTRUMENTS (Continued)

Risk ($M)	Description of change in risk variable	December 31, 2011 Before tax effect on comprehensive income 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, 2011	(1,825)
	Decrease in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on December 31, 2011	1,825
Currency risk - US $ to Canadian	**Increase** in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on December 31, 2011	6,035
	Decrease in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on December 31, 2011	(6,035)
Currency risk - AUD $ to Canadian	**Increase** in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on December 31, 2011	(59)
	Decrease in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on December 31, 2011	59
Commodity price risk	**Increase** in relevant oil reference price within option pricing models used to determine the fair value of financial derivative positions by US$5.00/bbl at December 31, 2011	(6,964)
	Decrease in relevant oil reference price within option pricing models used to determine the fair value of financial derivative positions by US$5.00/bbl at December 31, 2011	6,372

Reasonably possible changes in natural gas prices would not have had a material impact on comprehensive income for the years ended December 31, 2012 and 2011.

21. RELATED PARTY DISCLOSURES

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

The following table summarizes the compensation of directors and other members of key management personnel during the years ended December 31, 2012 and December 31, 2011:

	Year Ended	
($M)	**Dec 31, 2012**	**Dec 31, 2011**
Short-term benefits	**6,545**	5,185
Share-based payments	**15,428**	10,616
	21,973	15,801
Number of individuals included in the above amounts	**19**	15

22. WAGES AND BENEFITS

Included in operating expenses and general and administrative expenses for the year ended December 31, 2012 were $45.3 million and $30.9 million of wages and benefits, respectively (2011 – $37.8 million and $29.8 million, respectively).

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

Loren M. Leiker [5]
Houston, Texas

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 AND SPECIAL MEETING
May 1, 2013 at 1:30 p.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

Anthony Marino, P.Eng.
Executive Vice President & COO

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

Terry Hergott, CMA
Vice President Marketing

Daniel Goulet, P.Eng.
Director Corporate HSE

Cameron A. Hercus, MSc
Director Exploration and New Growth

Michael Kaluza, P.Eng.
Director Canada Business Unit

Dean N. Morrison, CFA
Director Investor Relations

Mike Prinz
Director Information Technology

Gerardo Rivera
Director Strategy and Portfolio Management

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

EUROPE

Gerard Schut, P.Eng.
Vice President European Operations

David Burghardt, P.Eng.
Interim Managing Director France Business Unit

Neil Wallace
Managing Director Netherlands Business Unit

AUSTRALIA

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

AUDITORS
Deloitte LLP
Calgary, Alberta

BANKERS
The Toronto-Dominion Bank
Calgary, Alberta

Bank of Montreal
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

National Bank of Canada
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

Citibank N.A., Canadian Branch
Citibank Canada
Calgary, Alberta

Wells Fargo Bank N.A., London Branch
London, England

La Caisse Centrale Desjardins du Québec
Montréal, Quebec

HSBC Bank Canada
Calgary, Alberta

JPMorgan Chase Bank, N.A., Toronto Branch
Toronto, Ontario

EVALUATION ENGINEERS
GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL
Norton Rose Canada LLP
Calgary, Alberta

TRANSFER AGENT
Computershare Trust Company of Canada

STOCK EXCHANGE LISTINGS
The Toronto Stock Exchange ("VET")
The New York Stock Exchange ("VET")

INVESTOR RELATIONS
Dean Morrison, Director Investor Relations

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

EXHIBIT 99.4

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the use of our reports dated February 28, 2013 relating to the consolidated financial statements of Vermilion Energy Inc. and the effectiveness of Vermilion Energy Inc.'s internal control over financial reporting appearing in this Annual Report on Form 40-F of Vermilion Energy Inc. for the year ended December 31, 2012.

("Deloitte LLP")

Independent Registered Chartered Accountants
Calgary, Canada
March 8, 2013

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 and resources as at December 31, 2012, in this Annual Report on Form 40-F of Vermilion Energy Inc., and any amendment thereof.

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 8, 2013

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(s) 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; and

   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(s) 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 8, 2013

("Lorenzo Donadeo")

_____

[Signature]

Lorenzo Donadeo, Chief Executive Officer

EXHIBIT 99.6

VERMILION ENERGY INC.
CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Curtis Hicks, certify that:

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

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

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

4. The issuer's other certifying officer(s) 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; and

   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(s) 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 8, 2013

("Curtis Hicks")

_____

[Signature]

Curtis Hicks, Chief Financial Officer

EXHIBIT 99.7

VERMILION ENERGY INC.
CERTIFICATE OF THE CHIEF EXECUTIVE OFFICER

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

In connection with the annual report of Vermilion Energy Inc. (the "Corporation") on Form 40-F for the fiscal year ended December 31, 2012, 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 8th day of March 2013.

("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, 2012, 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 8th day of March 2013.

("Curtis Hicks")
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[Signature]

Curtis Hicks, Chief Financial Officer