Annual Report

VERMILION ENERGY INC.

ANNUAL REPORT

For the Year Ended December 31, 2012

FOR THE YEAR ENDED DECEMBER 31, 2012

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ANNUAL AND SPECIAL MEETING

May 1, 2013 at 1:30 p.m.
The Ballroom
Metropolitan Centre
333 – 4th Avenue S.W.
Calgary, Alberta

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.

PRESIDENT'S MESSAGE TO SHAREHOLDERS

Dear Shareholders:

The strength of Vermilion's global commodity exposure and continued robust operations were highlighted in 2012. The Company's operating and fund flows netbacks, both before and after tax, continued to improve in 2012 while many of Vermilion's Canadian peers struggled with low Canadian gas prices and wide differentials for Canadian crude products relative to West Texas Intermediate (WTI), which itself remains at a significant discount to Brent-based crude. The Company complimented this positive price exposure with steady execution across its operating regions. Year-over-year total production increased 7%, driven by the acquisition of Brent-based oil in France and a 14% increase in Canadian production despite the intentional shut-in of significant dry natural gas production volumes during the second half of the year.

The pricing differentials witnessed in 2011 continued throughout 2012 with Brent-based crude averaging a US$17.38 /bbl premium to WTI. This afforded Vermilion a significant competitive advantage with approximately 43% of 2012 production volumes comprised of Brent-based crude production and a further 17% comprised of high-netback European gas. Vermilion's European gas received an average price of $9.70 /mcf in 2012 as compared to a realized average price of $2.52 /mcf for natural gas indexed to AECO in Canada. The Company's global commodity profile and increasing exposure to crude oil and liquids enabled it to achieve year-over-year growth in fund flows from operations of nearly 18%, outpacing production growth of 7%. In the near term, growth in fund flows from operations is expected to continue to outpace production growth as the Company continues to benefit from its global exposure and increasing leverage to high netback oil and European gas production.

Development capital spending was $452.5 million in 2012 compared to $490.8 million in 2011. 2012 spending was in-line with the most recent guidance (November 14, 2012) of $450 million. During 2012, Vermilion completed two acquisitions in France for total consideration of $181.1 million as well as payment of the final installment for the Corrib acquisition of $134.3 million (US$135 million).

Vermilion focused its 2012 Canadian activities on continued development of the Cardium light oil play. Average Cardium related production of over 7,600 boe/d was double 2011 production of 3,800 boe/d. Vermilion's per well production rates have remained consistently above its peers in the West Pembina region reflecting the high quality of the reservoir underlying the Company's land base. At the current drilling rate of 40 to 60 wells per year, production is anticipated to reach a peak of 12,000 to 14,000 boe/d in the next two to three years. In any resource play, cost containment is key. Completion of the Company's 15,000 bbl/d oil battery in 2011 has enabled Vermilion to achieve top quartile operating costs of less than $6 /bbl on operated production and provides the necessary infrastructure for full scale development of the Cardium light oil play. Furthermore, the Company's continued implementation of improved completion technology and well design, including the implementation of water-based fracture technologies, multi-well pad drilling, and extended horizontal sections, has resulted in a meaningful reduction in well costs from more than $5 million per section at the start of development to approximately $3 million per section in the fourth quarter of 2012. As development progresses, the Company anticipates the drilling of additional long reach horizontal wells which should continue to drive well costs lower on a per section basis. At the end of 2012, Vermilion had drilled 119 net physical (132 net section equivalent) Cardium wells and carried a drillable inventory of 261 net section equivalent Cardium wells resulting in a five-to-six year inventory of drillable locations at the current pace of development. The Company has also identified a further 120 prospective locations which are currently classified as contingent due to their marginal economics in the current pricing environment, but could be drilled in the future with improvements in technology, costs or commodity prices. For 2013, development activities in Canada will focus primarily on continued development of the Cardium with plans for an approximate 50 (42 net) well Cardium program in addition to a 6 (2.3 net) well Mannville liquids-rich gas program.

During the year, the Company announced a significant position in the emerging Duvernay liquids-rich natural gas resource play. To date, Vermilion has amassed 270 net sections in two large contiguous land blocks spanning the full breadth of the liquids-rich natural gas fairway. Leveraging its early entry strategy, the Company has been able to build this position at a cost of approximately $425 /acre. During 2012, the Company completed two vertical appraisal wells, and has completed a third vertical appraisal well subsequent to year end. Vermilion's Duvernay rights underlie the Company's existing Cardium development project, providing the potential to leverage existing Company infrastructure to create timing, operational and infrastructure cost advantages. In addition to its Cardium and Duvernay rights in the region, the Company also has a large inventory of more conventional, Mannville based liquids-rich natural gas development opportunities including the Ellerslie, Notikewin and Falher zones. With the addition of the Duvernay, Vermilion now has exposure to three distinct development opportunities in this core operating region that have the potential to deliver growth for the Company into the second half of the decade.

Vermilion continues to benefit from strong Brent-based pricing on its Australia production, enhancing the Wandoo field's contribution as a strong cash flow generator for the Company. A drilling program originally planned for late 2012 was deferred due to delayed receipt of the offshore drilling rig. Subsequent to year-end, Vermilion has received a drilling rig and commenced drilling of its two-well program at Wandoo. The two wells will be sidetracks that utilize existing well bores and are expected to come on-stream shortly following their completion in the second quarter of 2013. However, with the cyclone season typically occurring from December through March, there is the potential for the Company to experience some weather related delays. Vermilion believes it can sustain production at Wandoo of approximately 6,000 and 8,000 bbls/d for the foreseeable future with subsequent drill programs expected to occur approximately every two years.

In France, the Company completed two separate acquisitions in addition to its annual workover and recompletions programs. In January 2012, the Company acquired certain working interests in six producing fields located in the Paris and Aquitaine basins for a cash cost of approximately $106 million. With incremental production of more than 2,000 boe/d and an estimated 6.7(1) million boe of proved plus probable reserves (96% crude oil), the acquisition reflected the advantage of Vermilion's international exposure adding Brent crude production and reserves at attractive acquisition metrics of approximately $48,000 per boe/d and $15.80 /boe of proved plus probable reserves(1). In December 2012, Vermilion completed a further acquisition of approximately 850 boe/d of 100% working interest Brent crude oil production in the Paris Basin, with proved plus probable developed producing reserves(2) of approximately 6.3 million boe at December 31, 2012. Vermilion paid approximately $75 million for the acquisition, resulting in acquisition metrics of approximately $88,000 per boe/d and $12.00 /boe of proved plus probable developed producing reserves(2). Both acquisitions were complimentary to the Company's existing France assets and further strengthened Vermilion's position as the leading oil producer in France. For 2013, Vermilion will continue to focus on its annual workover and recompletion programs in addition to a four-well infill drilling program in the Champotran field. The Company will also work toward fully integrating its 2012 acquisitions and identifying further optimization and cost reduction opportunities.

In the Netherlands, Vermilion completed the tie-in of the De Hoeve-1 exploration well (previously drilled in 2009) during the second quarter of 2012, followed by the drilling of two new gas wells in the second (Vinkega-2) and third (Eernwoude-2) quarters of 2012. The Eernwoude-2 well was subsequently brought on production late in the fourth quarter of 2012. Also during the fourth quarter, the Company received the necessary partner approvals and initiated a project to debottleneck the Garijp gas gathering system, planned for completion during the second quarter of 2013 that is expected to enable production from the Vinkega-2 well to be brought on-stream. 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 currently expected to come on production following completion of surface facilities in the second quarter of 2013. In December of 2012, Vermilion was awarded an exploration license for the Opmeer concession, comprising more than 56,000 acres and located directly west of the Company's existing Slootdorp concession. For 2013, Vermilion is planning a two-to-three-well drilling program in the Netherlands.

In Ireland, the Corrib tunnel boring machine has been installed and tunneling activities related to completion of the nine kilometre onshore pipeline project commenced on December 16, 2012. Tunneling, construction and installation activities, commissioning and start-up are anticipated to take approximately two years to complete. With five wells currently drilled, tested and ready for production, and construction of related pipelines and facilities largely complete, the project is anticipated to produce first gas in late 2014 or early 2015, and to reach peak production levels of approximately 55 mmcf/d (9,000 boe/d) net to Vermilion in mid-2015.

Vermilion currently expects average production volumes between 39,000 and 40,500 boe/d for 2013, with the mid-point of that range representing approximately 5% production growth over 2012. Looking forward, Vermilion remains positioned to deliver on its production goal of 50,000 boe/d in 2015. Over the next several years, the Company anticipates growth to be driven by continued development of the Cardium light oil play in Western Canada, high-netback natural gas drilling opportunities in the Netherlands, and the onset of production at Corrib. France and Australia production is anticipated to remain relatively stable over that same time period while generating significant free cash flow given the strong weighting toward Brent-based crude oil production. The Company's medium-term and longer-term growth is anticipated to come from focused development of emerging resource plays in Canada and the greater European region.

As a means to positioning Vermilion for participation in medium to longer-term resource-based growth opportunities, the Company launched its New Growth Initiative in early 2010 to identify and secure low-cost, early-entry positions in emerging resource opportunities in Canada and the greater European region. In 2012, the Company signed an exploration permit for 2.34 million acres in Morocco and unveiled a significant position in the emerging Duvernay liquids-rich natural gas resource play. The Company is positioned to develop these and other emerging opportunities with the free cash flow anticipated from Corrib and its other international operations.

Vermilion's success in 2012 was best reflected by the Company's announced 5.3% increase in the monthly cash dividend to $0.20 per share. This was the Company's second increase since initiating a dividend ten years ago. Vermilion has never reduced its dividend. The increase was effective for the January 2013 dividend payable on February 15, 2013. For 2012, Vermilion was able to fully fund net dividends and development capital expenditures (excluding capital investment for its Corrib asset) with fund flows from operations.

Vermilion continues to be recognized for excellence in its business practices. For the third year in a row, Vermilion was recognized as one of the Top 25 Best Workplaces in Canada and France by the Great Place to Work® Institute. In the Globe and Mail's annual Board Games survey on corporate governance, Vermilion ranked second among oil and gas companies and 15th among over 200 Canadian corporations.

During 2012, Vermilion announced that Mr. Loren Leiker has joined Vermilion's Board of Directors. Mr. Leiker brings significant resource play experience and will provide guidance regarding Vermilion's global resource development initiatives.

Vermilion previously announced it has initiated the process for a secondary listing of the Company's common shares on the NYSE Euronext's New York Stock Exchange ("NYSE"). Pending final application approvals, the Company currently expects its shares will be listed on the NYSE on or about March 12, 2013 under the ticker symbol "VET". As an international oil and gas producer, Vermilion believes the secondary listing may assist in broadening its shareholder base and improving share liquidity.

With the increasing certainty for Corrib development timing, and the strength of anticipated fund flows from operations both prior to and following Corrib first gas, Vermilion is confident it can achieve its future growth objectives and continue to provide a reliable and potentially growing dividend stream to investors. The Company believes its balance sheet is capable of funding Corrib development through to first gas while remaining within acceptable net debt to fund flows from operations ratio limits, leaving Vermilion well positioned to execute its capital-efficient growth-and-income model. The management and directors of Vermilion continue to control approximately 8% of the outstanding shares and remain committed to delivering superior rewards to all stakeholders.

(Signed "Lorenzo Donadeo")

Lorenzo Donadeo
President and Chief Executive Officer
February 28, 2013

[1] Estimated proved plus probable reserves attributable to the assets as evaluated by GLJ in a report dated October 14, 2011 with an effective date of December 31, 2011.

[2] Estimated proved plus probable developed producing reserves attributable to the Acquisition as evaluated by GLJ in a report dated November 13, 2012 with an effective date of December 31, 2012.

HIGHLIGHTS

($M except as indicated)	Three Months Ended			Year Ended	
Financial	**Dec 31, 2012**	**Sept 30, 2012**	**Dec 31, 2011**	**Dec 31, 2012**	**Dec 31, 2011**
Petroleum and natural gas sales	**241,233**	284,838	275,172	**1,083,103**	1,031,570
Fund flows from operations [1]	**141,737**	137,094	136,883	**557,728**	474,336
Fund flows from operations ($/basic share)	**1.43**	1.39	1.46	**5.69**	5.22
Fund flows from operations ($/diluted share)	**1.41**	1.37	1.44	**5.62**	5.14
Net earnings	**56,914**	30,798	(30,243)	**190,622**	142,821
Net earnings per share ($/basic share)	**0.58**	0.31	(0.32)	**1.94**	1.57
Capital expenditures	**157,035**	106,255	152,251	**452,538**	490,780
Acquisitions	**209,254**	-	12,777	**315,438**	50,878
Asset retirement obligations settled	**8,424**	1,968	7,559	**13,739**	23,071
Cash dividends ($/share)	**0.57**	0.57	0.57	**2.28**	2.28
Dividends declared	**56,435**	56,196	53,871	**223,717**	207,846
Net dividends [1]	**37,967**	38,945	37,069	**151,659**	148,765
% of fund flows from operations, gross	**40%**	41%	39%	**40%**	44%
% of fund flows from operations, net	**27%**	28%	27%	**27%**	31%
Total net dividends, capital expenditures and asset retirement obligations settled [1]	**203,426**	147,168	196,879	**617,936**	662,616
% of fund flows from operations	**144%**	107%	144%	**111%**	140%
% of fund flows from operations (excluding the Corrib project)	**129%**	93%	131%	**99%**	123%
Net debt [1]	**677,231**	549,491	428,961	**677,231**	428,961
Return on shareholders' equity				**14%**	12%
Operational					
Production					
Crude oil (bbls/d)	**23,699**	23,047	22,096	**23,971**	20,979
NGLs (bbls/d)	**1,176**	1,245	1,312	**1,299**	1,355
Natural gas (mcf/d)	**68,344**	73,524	79,478	**75,200**	77,207
Total (boe/d)	**36,265**	36,546	36,654	**37,803**	35,202
Average realized prices					
Crude oil and NGLs ($/bbl)	**96.74**	100.70	105.49	**101.07**	104.58
Natural gas ($/mcf)	**7.15**	6.12	6.57	**6.17**	6.35
Production mix (% of production)					
% priced with reference to WTI	**25%**	23%	21%	**24%**	17%
% priced with reference to AECO	**14%**	16%	20%	**16%**	21%
% priced with reference to European gas	**17%**	17%	16%	**17%**	16%
% priced with reference to Dated Brent	**44%**	44%	43%	**43%**	46%
Netbacks ($/boe) [1]					
Operating netback	**57.54**	55.02	54.86	**55.48**	51.53
Fund flows netback	**46.07**	38.66	40.60	**40.96**	36.93
Operating expenses	**14.18**	13.27	12.01	**13.10**	12.64
Average reference prices					
WTI (US $/bbl)	**88.18**	92.22	94.06	**94.20**	95.12
Dated Brent (US $/bbl)	**110.02**	109.61	109.31	**111.58**	111.27
AECO ($/GJ)	**3.05**	2.17	3.01	**2.26**	3.43
Average foreign currency exchange rates					
CDN $/US $	**0.99**	0.99	1.02	**1.00**	0.99
CDN $/Euro	**1.29**	1.25	1.38	**1.29**	1.38
Share information ('000s)					
Shares outstanding - basic	**99,135**	98,729	96,430	**99,135**	96,430
Shares outstanding - diluted [1]	**101,913**	101,149	98,778	**101,913**	98,778
Weighted average shares outstanding - basic	**98,944**	98,523	93,616	**98,016**	90,878
Weighted average shares outstanding - diluted	**100,425**	99,748	95,082	**99,294**	92,272

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

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 ($M except per boe and per mcf)	**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**
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 ($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**
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

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	**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)

($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
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 ($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
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 ($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
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.

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")

W. Kenneth Davidson, Director

(Signed "Lorenzo Donadeo")

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	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:

($M)	Year Ended Dec 31, 2012	Year Ended 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).

VERMILION ENERGY

Corporate Information

DIRECTORS

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

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

Lorenzo Donadeo
Calgary, Alberta

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

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

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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