VERMILION
ENERGY TRUST

ANNUAL REPORT

2004

FINANCIAL STATEMENTS

MANAGEMENT'S REPORT TO UNITHOLDERS

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

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

Deloitte & Touche LLP, the Trust's external auditors, have conducted an examination of the consolidated financial statements in accordance with generally accepted auditing standards in Canada and have provided an independent opinion.

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 the external auditors 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 Auditors' Report before they are presented to the Board of Directors.

Lorenzo Donadeo
President & Chief Executive Officer
February 18, 2005

Curtis W. Hicks
Executive Vice President &
Chief Financial Officer

AUDITORS' REPORT TO UNITHOLDERS

We have audited the consolidated balance sheets of Vermilion Energy Trust (the "Trust") as at December 31, 2004 and 2003 and the consolidated statements of earnings and accumulated earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Trust's management. 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. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta CANADA
February 18, 2005

Deloitte & Touche LLP
Chartered Accountants

Consolidated Balance Sheets
December 31
(THOUSANDS OF CANADIAN DOLLARS)

	2004	2003 (Restated Notes 3,4)
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 65,031**	$ 44,320
Accounts receivable	**54,044**	37,178
Crude oil inventory	**4,468**	3,477
Fair value of derivative instruments (Note 15)	**68**	-
Prepaid expenses and other	**5,022**	2,949
Current assets related to discontinued operations (Note 4)	**-**	8,559
	128,633	96,483
Deferred charges for derivative instruments (Note 15)	**4,718**	-
Long-term investment (Note 6(b))	**5,398**	-
Reclamation fund	**17,016**	1,678
Capital assets related to discontinued operations (Note 4)	**-**	85,597
Capital assets (Note 7)	**688,837**	596,831
	$ 844,602	$ 780,589
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**$ 85,837**	$ 78,515
Distributions payable to unitholders	**10,320**	10,065
Income taxes payable	**23,798**	4,966
Fair value of derivative instruments (Note 15)	**21,678**	-
Current liabilities related to discontinued operations (Note 4)	**-**	1,371
	141,633	94,917
Long-term debt (Note 9)	**75,014**	135,558
Asset retirement obligation (Note 8)	**51,688**	15,570
Future income taxes related to discontinued operations (Note 4)	**-**	6,919
Future income taxes (Note 10)	**145,680**	151,198
	414,015	404,162
NON-CONTROLLING INTEREST (Note 6(a))	**16,257**	-
NON-CONTROLLING INTEREST – Exchangeable Shares (Note 12)	**23,069**	15,129
UNITHOLDERS' EQUITY		
Unitholders' capital (Note 11)	**247,928**	221,858
Contributed surplus (Note 11)	**27,697**	10,100
Accumulated earnings	**337,186**	228,269
Accumulated cash distributions	**(221,550)**	(98,929)
	391,261	361,298
	$ 844,602	$ 780,589

APPROVED BY THE BOARD

Joseph F. Killi, Director

Lorenzo Donadeo, Director

Consolidated Statements of Earnings and Accumulated Earnings
Years Ended December 31
(THOUSANDS OF CANADIAN DOLLARS, EXCEPT UNIT AND PER UNIT AMOUNTS)

	2004	2003 (Restated Notes 3,4)
REVENUE		
Petroleum and natural gas revenue (Note 15)	$ 354,525	$ 314,146
Royalties (net)	63,555	74,719
	290,970	239,427
EXPENSES		
Production	55,917	51,161
Transportation	9,865	10,370
Accretion (Note 8)	2,261	1,134
Unit compensation (Note 13)	26,766	8,303
Loss on derivative instruments (Note 15)	38,597	-
Interest on long-term debt	3,086	9,348
General and administration	13,410	10,368
Reorganization costs (Note 5)	-	25,628
Foreign exchange (gain) loss	(1,285)	2,998
Depletion and depreciation	95,279	91,947
	243,896	211,257
EARNINGS BEFORE INCOME TAXES, OTHER ITEMS AND DISCONTINUED OPERATIONS	47,074	28,170
INCOME TAXES (RECOVERY) (Note 10)		
Future	(21,033)	(23,832)
Current	16,583	4,205
Capital	525	761
	(3,925)	(18,866)
OTHER ITEMS		
Non-controlling interest – exchangeable shares (Note 12)	3,882	4,335
Non-controlling interest (Note 6(a))	(338)	-
Equity in losses of affiliate (Note 6(b))	41	-
	3,585	4,335
NET EARNINGS FROM CONTINUING OPERATIONS	47,414	42,701
Net earnings (loss) from discontinued operations (Note 4)	66,286	(1,642)
Non-controlling interest - exchangeable shares (gain) (Note 12)	4,783	(157)
NET EARNINGS	108,917	41,216
ACCUMULATED EARNINGS, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	240,493	183,751
Changes in accounting policies (Note 3)	(12,224)	3,302
Accumulated earnings, beginning of year, as restated	228,269	187,053
ACCUMULATED EARNINGS, END OF YEAR	$ 337,186	$ 228,269
NET EARNINGS FROM CONTINUING OPERATIONS PER TRUST UNIT (NOTE 14):		
Basic	$ 0.79	$ 0.80
Diluted	$ 0.77	$ 0.80
NET EARNINGS PER TRUST UNIT (Note 14):		
Basic	$ 1.81	$ 0.78
Diluted	$ 1.77	$ 0.77
WEIGHTED-AVERAGE TRUST UNITS OUTSTANDING (NOTE 14):		
Basic	60,166,163	53,114,697
Diluted	66,375,229	59,093,044

Consolidated Statements of Cash Flows
Years Ended December 31
(THOUSANDS OF CANADIAN DOLLARS)

	2004	2003 (Restated Notes 3,4)
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):		
OPERATING		
Net earnings	**$ 108,917**	$ 41,216
Items not affecting cash:		
Depletion and depreciation	**95,279**	91,947
Amortization of deferred charges for derivative instruments	**9,709**	-
Unrealized loss on derivative instruments	**7,183**	-
Unit compensation	**26,766**	8,303
Accretion	**2,261**	1,134
Equity in losses of affiliate	**41**	-
Unrealized foreign exchange (gain) loss	**(985)**	2,766
Amortized deferred financing costs	**-**	590
Non-controlling interest	**(338)**	-
Non-controlling interest – exchangeable shares	**8,665**	4,178
Trust units issued on cancellation of employee stock options (Note 5)	**-**	16,817
(Earnings) loss from discontinued operations	**(66,286)**	1,642
Future income taxes (recovery)	**(21,033)**	(23,832)
Funds from operations	**170,179**	144,761
Asset retirement costs incurred	**(1,281)**	(2,034)
Changes in non-cash operating working capital (Note 16)	**22,479**	13,168
	191,377	155,895
INVESTING		
Proceeds on sale of Aventura (Note 4)	**164,585**	-
Drilling and development of petroleum and natural gas properties	**(67,259)**	(66,919)
Cash acquired through acquisition of subsidiary	**62**	-
Acquisition of petroleum and natural gas properties (Note 6)	**(72,985)**	-
Contributions to reclamation fund	**(15,338)**	(1,678)
Changes in non-cash investing working capital (Note 16)	**(37,131)**	(2,673)
	(28,066)	(71,270)
FINANCING		
Issue of trust units for cash, net of unit issue costs	**8,836**	81,953
Cash distributions	**(122,366)**	(88,864)
Decrease in long-term debt	**(60,544)**	(57,467)
Issue of trust units pursuant to distribution reinvestment plan	**6,662**	6,209
Cash acquired on shares issued by subsidiary, net of share issue costs	**24,206**	-
Increase in deferred financing costs	**-**	(155)
Changes in non-cash financing working capital (Note 16)	**104**	(402)
	(143,102)	(58,726)
Foreign exchange (loss) gain on cash held in foreign currencies	**502**	(4,103)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**20,711**	21,796
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**44,320**	22,524
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 65,031**	$ 44,320
SUPPLEMENTARY INFORMATION - CASH PAYMENTS		
Interest paid	**$ 3,512**	$ 10,080
Income taxes paid	**$ 14,208**	$ 9,869

1. BASIS OF PRESENTATION

Vermilion Energy Trust (the "Trust" or "Vermilion") was established on January 22, 2003, under a Plan of Arrangement entered into by the Trust, Vermilion Resources Ltd. ("Resources" or the "Company"), Clear Energy Inc. ("Clear") and Vermilion Acquisition Ltd. The Trust is an open-end unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to a trust indenture ("Trust Indenture"). Computershare Trust Company of Canada has been appointed trustee under the Trust Indenture. The beneficiaries of the Trust are the holders of trust units.

As a result of the completion of the Plan of Arrangement involving the Trust, the Company, Clear and Vermilion Acquisition Ltd., former holders of common shares of the Company, received units of the Trust or exchangeable shares of the Company or a combination thereof, in accordance with the elections made by such holders, and common shares of Clear (Note 5). The Company became a subsidiary of the Trust. The Company is actively engaged in the business of oil and natural gas development, acquisition and production.

Prior to the Plan of Arrangement on January 22, 2003, the consolidated financial statements included the accounts of the Company and its subsidiaries. After giving effect to the Plan of Arrangement, the consolidated financial statements have been prepared on a continuity of interests basis, which recognizes the Trust as the successor entity to Resources.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation
The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Trust and its subsidiaries on a consolidated basis, all of which are wholly owned, except Verenex Energy Inc. ("Verenex") (Note 6a). Inter-company account balances and transactions are eliminated upon consolidation.

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

Amortization of these costs is done on a country-by-country basis and is calculated on the unit-of-production method based on estimated proven reserves, before royalties, as determined by independent engineers. The cost of significant unevaluated properties is excluded from the depletion and depreciation base. For purposes of depletion and depreciation calculations, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content based on a conversion ratio of six thousand cubic feet of natural gas to a barrel of oil.

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

Substantially all of the exploration, development and production activities of the Trust are conducted jointly with others and, accordingly, the consolidated financial statements reflect only the Trust's proportionate interest in such activities.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Trust recognizes the estimated liability associated with an asset retirement obligation ("ARO") in the consolidated financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production method over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

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

Cash and Cash Equivalents
Cash and cash equivalents include monies on deposit and short-term investments accounted for at cost that have a maturity date of not more than 90 days.

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

Crude Oil Inventories
Inventories of crude oil, consisting of production awaiting shipment at the Ambès Shipping Terminal in France, are valued at lower of cost or net realizable value. Cost is determined on a weighted-average basis.

Unit Rights Incentive Plan
The Trust has a unit-based long-term compensation plan for directors, officers and employees of the Trust and its subsidiaries. Unit compensation expense is measured based on the intrinsic value of the right at the date of exercise or at the date of the consolidated financial statements for unexercised rights.

Unit compensation expense associated with rights granted is deferred and recognized in earnings over the vesting period of the Plan with a corresponding increase or decrease in contributed surplus. Changes in the intrinsic value of unexercised rights after the vesting period are recognized in earnings in the period of change with a corresponding increase or decrease in contributed surplus. This method of determining compensation expense may result in large fluctuations, even recoveries, in unit compensation expense due to changes in the underlying price of the trust units. Recoveries of unit compensation expense will only be recognized to the extent of previously recorded cumulative compensation expense associated with rights exercised or outstanding at the date of the consolidated financial statements.

Consideration paid upon the exercise of the rights together with the amount previously recognized in contributed surplus is recorded as an increase in unitholders' capital. The Trust has not incorporated an estimated forfeiture rate for rights that will not vest, rather, the Trust accounts for forfeitures as they occur. See Note 13 for a description of the long-term compensation plan.

Deferred Charges for Derivative Financial Instruments
Deferred charges for derivative financial instruments is the fair value of all outstanding derivative financial instruments at January 1, 2004 that were recorded on the consolidated balance sheet with an offsetting amount to deferred charges. The deferred charge is recognized into revenue over the life of the associated contracts.

Revenue Recognition
Revenues associated with the sale of crude oil, natural gas and liquids are recorded when title passes to the customer.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Financial Instruments

The Trust has not elected to designate any of its price risk management activities as accounting hedges under Accounting Guideline 13, Hedging Relationships ("AcG-13") and will account for all these derivative financial instruments using the fair value method. The Trust uses derivative financial instruments to manage exposures to fluctuations in commodity prices, interest rates and foreign currency exchange rates. All transactions of this nature entered into by the Trust are related to an underlying financial position or to future petroleum and natural gas production. The Trust does not use derivative financial instruments for trading purposes. The fair value of derivative financial instruments are recorded in the consolidated balance sheet with changes in fair value of derivative financial instruments recognized in earnings during the period.

Per-unit Amounts

Net earnings per unit are calculated using the weighted-average number of units outstanding during the period. Diluted net earnings per unit are calculated using the treasury stock method to determine the dilutive effect of unit-based compensation and include the weighted-average number of exchangeable shares outstanding converted at the exchange ratio at the end of each period. The treasury stock method assumes that the proceeds received from the exercise of "in the money" trust unit rights are used to repurchase units at the average market price during the period.

Foreign Currency Translation

Foreign currency balances of foreign subsidiaries, which are considered to be integrated, are translated on the following basis:

- Monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates;
- Non-monetary assets, liabilities and related depreciation and depletion expense are translated at historical rates; and
- Sales, other revenues, royalties and all other expenses are translated at the average rate of exchange during the month in which they are recognized.

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

Long-Term Investment

The Trust's 38% investment in Glacier is accounted for using the equity basis of accounting whereby the investment cost is increased or decreased for the Trust's ownership percentage of net earnings or loss and reduced by dividends paid to the Trust.

The Trust reviews and evaluates the carrying value of its investment annually. More frequent reviews are conducted as conditions necessitate. In the event a decrease in the value of the investment is other than a temporary decline, the investment is written down to recognize the loss.

Reclamation Fund

A reclamation fund has been set up by the Trust to ensure that cash is available to carry out future abandonment and reclamation work on wells, plants and facilities. Contributions are currently made on a barrel of oil equivalent of production basis in Canada, France and the Netherlands and are occasionally supplemented with lump sum contributions.

Income Taxes

The Trust is a taxable entity under the Income Tax Act (Canada) and is taxable only on income that is not distributed or distributable to the unitholders. As the Trust allocates all of its Canadian taxable income to the unitholders in accordance with the Trust Indenture, and meets the requirements of the Income Tax Act (Canada) applicable to the Trust, no provision for Canadian income tax expense has been made in the Trust.

In the Trust structure, payments are made between the Company and the Trust that result in the transferring of taxable income from the Company to individual unitholders. These payments may reduce future income tax liabilities previously recorded by the Company that would be recognized as a recovery of income tax in the period incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes are calculated in the subsidiary companies using the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the consolidated financial statements of the Trust and their respective underlying tax base, using substantively enacted income tax rates in the respective tax jurisdictions that will be in effect when the differences are expected to reverse. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period in which a change occurs.

The Trust is subject to current taxes in both France and the Netherlands based on the enacted tax legislation of each respective country.

Distributions
The Trust makes monthly distributions of its distributable cash to unitholders of record on the last day of each calendar month. Pursuant to the Trust's policy, it will pay distributions to its unitholders subject to satisfying its financing covenants, making loan repayments and, if applicable, funding future asset retirement obligations.

Discontinued Operations
On May 6, 2004, the Trust completed the sale of its subsidiary, Aventura. Accordingly, these consolidated financial statements include the accounts of the Trust and its remaining subsidiaries. The financial position and results of operations of Aventura previously reported in the Trust's annual audited consolidated financial statements as at and for the year ended December 31, 2003 and previous unaudited interim consolidated financial statements have been restated and are now reported as discontinued operations (Note 4).

Transportation Costs
Effective for fiscal years beginning on or after October 1, 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 1100 Generally Accepted Accounting Principles ("GAAP"), which defines the sources of GAAP that companies must use and effectively eliminates industry practice as a primary source of GAAP. In prior years, it had been industry practice for companies to net transportation charges against revenue rather than showing transportation as a separate expense on the consolidated statements of earnings. Beginning January 1, 2004, the Trust has recorded revenue gross of transportation charges and has separately recorded transportation as an expense on the consolidated statements of earnings. Prior periods have been reclassified for comparative purposes. This adjustment has no impact on net earnings, per trust unit calculations, or cash flow for the Trust.

3. CHANGES IN ACCOUNTING POLICY

Exchangeable Shares - Non-controlling Interest
On January 19, 2005 the CICA issued revised draft EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts" that states that exchangeable securities issued by a subsidiary of an Income Trust should be reflected as either non-controlling interest or debt on the consolidated balance sheet unless they meet certain criteria. The exchangeable shares issued by Resources, a corporate subsidiary of the Trust, are transferable to third parties. EIC-151 states that if the exchangeable shares are transferable to a third party, they should be reflected as non-controlling interest. Previously, the exchangeable shares were reflected as a component of unitholders' equity.

The exchangeable shares issued pursuant to the Plan of Arrangement were initially recorded at their pro-rata percentage of the carrying value of Resources equity. When the exchangeable shares are converted into trust units, the conversion is recorded as an acquisition of the non-controlling interest at fair value and is accounted for as a step acquisition. Upon conversion of the exchangeable shares, the fair value of the trust units issued is recorded in unitholders' capital, and the difference between the carrying value of the non-controlling interest and the fair value of the trust units is recorded as capital assets.

3. CHANGES IN ACCOUNTING POLICY (Continued)

As a result of this change in accounting policy, the Trust has reflected non-controlling interest of $23.1 million and $15.1 million, respectively, on the Trust's consolidated balance sheet as at December 31, 2004 and 2003. Consolidated net earnings has been reduced for net earnings attributable to the non-controlling interest of $8.7 million and $4.2 million, respectively, in 2004 and 2003. The impact of the above changes on the consolidated balance sheets of the Trust is an increase in capital assets of $0.8 million in 2004 (2003 - $16.6 million), increase in future income taxes of $0.3 million in 2004 (2003 - $5.7 million), a net increase in unitholders' capital of $3.2 million in 2004 (2003 - $1.2 million), and an increase in non-controlling interest of $8.0 million in 2004 (2003 - $15.1 million) as mentioned above. The impact on the consolidated statements of earnings is an increase in depletion and depreciation of $3.0 million in 2004 (2003 - $1.9 million), an increase in future income taxes recovery of $1.0 million in 2004 (2003 - $0.6 million), and an increase in non-controlling interest of $8.7 million in 2004 (2003 - $4.2 million) as mentioned above, for a net effect on net earnings of $10.7 million in 2004 (2003 - $5.5 million). In accordance with the transitional provisions of EIC-151, retroactive application has been applied with restatement of prior periods. Cash flow was not impacted by this change.

Hedging Relationships

On January 1, 2004, the Trust adopted the amendments made to Accounting Guideline 13 ("AcG-13") "Hedging Relationships", and EIC 128, "Accounting for Trading, Speculative or Non Trading Derivative Financial Instruments". Derivative instruments that do not qualify as a hedge under AcG-13, or are not designated as a hedge, are recorded in the consolidated balance sheet as either an asset or liability with changes in fair value recognized in net earnings. The Trust has elected not to designate any of its price risk management activities as accounting hedges under AcG-13 and, accordingly accounts for all these derivative financial instruments using the fair value method. The impact on the Trust's consolidated financial statements at January 1, 2004 resulted in the recognition of derivative instrument assets with a fair value of $3,386, derivative instrument liabilities with a fair value of $17,813 and a net deferred charge of $14,427 which is being recognized into net earnings over the life of the associated contracts. Net earnings per trust unit was decreased by $0.28 per unit in 2004 as a result of the accounting policy change.

Capital Assets

Effective January 1, 2004 the Trust adopted Accounting Guideline 16 "Oil and Gas Accounting – Full Cost", which replaces Accounting Guideline 5 "Full Cost Accounting in the Oil and Gas Industry". Accounting Guideline 16 ("AcG-16") modifies how impairment is tested and is consistent with CICA section 3063 "Impairment of Long-lived Assets". Under AcG-16, impairment is recognized if the carrying amounts of the capital assets exceed the sum of the undiscounted cash flows expected to result from the Trust's proved reserves.

If the carrying value is not fully recoverable, the amount of impairment is measured by comparing the carrying amount of the capital assets to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves. This calculation incorporates risks and uncertainties in the expected future cash flows which are discounted using a risk-free rate. Any excess carrying value above the net present value of the future cash flows would be recorded as a permanent impairment charged to earnings.

Previously, impairment was tested based on undiscounted future net revenues using proved reserves, and providing for future general and administration expenses, carrying costs, and taxes. The adoption of AcG-16 had no effect on the Trust's financial results.

Asset Retirement Obligations

The Trust accounts for its asset retirement obligations under the new CICA Handbook, section 3110, "Asset Retirement Obligations". This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the future retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value determined as the estimated future costs discounted to the present value and subsequently adjusted for the accretion of the discount factor and any changes in the underlying cash flows. The asset retirement cost is capitalized to the related asset and amortized into earnings over time. Previously, the Trust recognized a provision for future site restoration based on the unit-of-production method applied to the estimated future liability.

This change in accounting policy has been applied retroactively with restatement of prior periods presented for comparative purposes as follows:

3. CHANGES IN ACCOUNTING POLICY (Continued)

Consolidated Balance Sheet – as at December 31, 2003:

	As Reported[1]	Change	As Restated
Capital assets	$589,613	$7,218	$596,831
Site restoration and abandonment	13,498	(13,498)	-
Asset retirement obligations	-	15,570	15,570
Future income taxes	149,340	1,858	151,198
Accumulated earnings	$224,981	$3,288	$228,269

Consolidated Statement of Earnings and Accumulated Earnings – year ended December 31, 2003:

	As Reported[1]	Change	As Restated
Depletion and depreciation	$93,059	$(1,112)	$91,947
Accretion	-	1,134	1,134
Future income taxes	(23,824)	(8)	(23,832)
Net earnings	$41,230	$ (14)	$41,216

1 "As reported" amounts have been adjusted to reflect the classification of Aventura as discontinued operations, the adjustment to stock compensation, and to record exchangeable shares as non-controlling interest.

There was no effect on the restated basic and diluted net earnings per trust unit for the year ended December 31, 2003.

Trust Unit Rights Incentive Compensation

The Trust has a Unit Rights Incentive Plan (the "Plan") for directors, officers and employees. The exercise price of the rights granted may be reduced in future periods under certain conditions as described in Note 13. The amount of the reduction over the term of the right cannot be reasonably estimated as it is dependent upon a number of factors. Therefore, it is not possible to determine a fair value for the rights granted using a traditional option-pricing model and unit compensation expense has been determined based on the intrinsic value of the rights at the date of exercise or at the date of the consolidated financial statements for unexercised rights.

Unit compensation expense associated with rights granted is deferred and recognized in earnings over the vesting period of the Plan with a corresponding increase or decrease in contributed surplus. Changes in the intrinsic value of unexercised rights after the vesting period are recognized in earnings in the period of change with a corresponding increase or decrease in contributed surplus. This method of determining compensation expense may result in large fluctuations, even recoveries, in compensation expense due to changes in the underlying price of the Trust units. Recoveries of compensation expense will only be recognized to the extent of previously recorded cumulative compensation expense associated with rights exercised or outstanding at the date of the consolidated financial statements.

Consideration paid upon the exercise of the rights together with the amount previously recognized in contributed surplus is recorded as an increase in unitholders' capital. The Trust has not incorporated an estimated forfeiture rate for rights that will not vest, rather, the Trust accounts for forfeitures as they occur. See Note 13 for a description of the plan.

The Trust adopted the provisions outlined in Section 3870 Stock Based Compensation and other Stock Based Payments of the CICA Handbook as at January 1, 2004. The section requires that unit based compensation be recorded by the Trust. Net earnings per trust unit was decreased by $0.44 per unit in 2004 as a result of the accounting policy change.

The decision was made to adopt the new policy retroactively with restatement for the Trust and Aventura resulting in a charge to accumulated earnings on the January 1, 2004 balance sheet of $10,100. The expense related to the year ended December 31, 2003 was a charge to unit compensation expense of $8,303. During the second quarter, Aventura was sold and $1.8 million of accumulated earnings recorded at January 1, 2004 was removed from contributed surplus.

4. DISCONTINUED OPERATIONS

On May 6, 2004, the Trust completed the sale of the shares of its subsidiary, Aventura, for gross proceeds of $164.6 million which was accounted for as follows:

Gross sale proceeds	$	164,585
Carrying value of investment in Aventura		82,388
Gain on sale of Aventura		82,197
Future income taxes		14,233
Net gain on sale of Aventura	$	67,964

The Trust restated its prior period financial statements to reflect Aventura's assets and liabilities as discontinued operations and to separately classify the operating results of Aventura from the operating results of continuing operations.

Details of the assets sold and the related liabilities are as follows:

		December 31, 2003
Current assets	$	8,559
Petroleum and natural gas interests		85,597
Total assets		94,156
Current liabilities		1,371
Future income taxes		6,919
Total liabilities		8,290
Contributed surplus		1,800
	$	84,066

The net earnings (loss) from discontinued operations disclosed in the Consolidated Statements of Earnings and Accumulated Earnings includes the following:

		2004		**2003**
Revenue	**$**	**4,121**	$	11,796
Loss before income taxes	**$**	**(1,938)**	$	(1,094)
Income taxes (recovery)		**(260)**		548
Loss from discontinued operations		**(1,678)**		(1,642)
Net gain on sale		**67,964**		-
	$	**66,286**	$	(1,642)

5. TRANSFER OF ASSETS AND LIABILITIES PURSUANT TO THE PLAN OF ARRANGEMENT

Under the Plan of Arrangement, the Company transferred to Clear a portion of the Company's existing lands and exploration assets for common shares of Clear, which were distributed to the shareholders of Resources. As this was a related-party transaction, assets and liabilities were transferred at carrying value, as follows:

Petroleum and natural gas assets and equipment	$	19,509
Future income tax asset		5,461
Total assets transferred		24,970
Provision for site restoration and abandonment		89
Net assets transferred and reduction in share capital	$	24,881

Associated with the Plan of Arrangement, the Company recorded transaction costs of $25.6 million, with $16.8 million related to the issue of Trust units in exchange for cancellation of stock options under the previous stock option plan of Resources and $8.8 million in advisory and other costs. These costs were recorded as an expense during the year ended December 31, 2003.

6. INVESTMENTS, ACQUISITIONS AND DISPOSITION

a) Verenex Energy Inc.

On June 29, 2004 Verenex Energy Inc. ("Private Verenex"), a subsidiary of the Trust, amalgamated with Prairie Fire Oil & Gas Ltd. ("Prairie Fire"). The common shares of Prairie Fire were exchanged for common shares of the resulting issuer, Verenex Energy Inc. ("Verenex") on the basis of one Verenex share for every 25 Prairie Fire shares, and each Private Verenex share was exchanged for one common share of Verenex. As a result of the share exchange control passed to Verenex as it owns the majority of the issued and outstanding shares of the combined entity. Accounting principles applicable to reverse takeovers have been applied to record this acquisition. Net assets of Prairie Fire were deemed to have been purchased by Verenex, at fair value, through the exchange of capital.

In conjunction with the transaction described above, Vermilion sold to Verenex exploration interests in France and a royalty on producing oil and gas assets in Alberta in exchange for 10 million common shares. The sale of assets were recorded at the underlying cost of the assets to the Trust due to the related party nature of the transaction.

The Trust subscribed for 2 million of common shares at a price of $2.50 per share through Verenex's $32.6 million private placement on June 29, 2004. At December 31, 2004 the Trust holds 12.1 million of Verenex shares representing 53.7% of the outstanding shares. Effective June 29, 2004, the Trust has accounted for the investment by consolidating the net assets and operations of Verenex.

b) Glacier Energy Limited

On June 16, 2004, the Trust acquired 5.4 million shares of Glacier for consideration of 50% of the Trust's working interest in the coalbed methane and shallow gas rights over certain of its lands. The Trust owns approximately 38% of the basic common shares of Glacier and accounts for the investment using the equity method.

c) Netherlands Acquisition

On May 19, 2004, the Trust acquired producing properties in the Netherlands for $80.5 million. The closing cost, after adjustments, on May 19, 2004 was $64.5 million. Details are as follows:

Petroleum and natural gas assets and equipment	$ 119,355
Asset retirement obligation	(33,876)
	85,479
Accounts payable and accrued liabilities	(21,005)
Cash paid	$ 64,474

d) Aventura Energy Inc.

Effective January 22, 2003, the Trust sold its existing 40% working interest in the Central Block in Trinidad to Aventura for consideration of 212 million common shares. Assets and liabilities were transferred at exchange value which approximates carrying value. The sale increased the Trust's equity holding in Aventura to approximately 72% from approximately 47% held prior to the sale. On May 6, 2004, the Trust sold its shares in Aventura (see Note 4).

7. CAPITAL ASSETS

2004	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 1,079,692	$ 393,372	$ 686,320
Furniture and equipment	6,855	4,338	2,517
	$ 1,086,547	$ 397,710	$ 688,837

2003	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 888,485	$ 294,299	$ 594,186
Furniture and equipment	6,151	3,506	2,645
	$ 894,636	$ 297,805	$ 596,831

As at December 31, 2004, costs of NIL (2003—$19.7 million) for undeveloped properties have been excluded from the depletion and depreciation calculation. During the year, the Trust capitalized $1.7 million (2003—$2.1 million) of overhead costs related to exploration and development activities.

The Trust performed a ceiling test calculation at December 31, 2004 to assess the recoverable value of petroleum and natural gas properties and equipment. Based on the calculation, the present value of future net revenues from the Trust's proved reserves exceeded the carrying value of the Trust's petroleum and natural gas properties and equipment at December 31, 2004.

The benchmark prices used in the calculation are as follows:

CDN$/BOE	Canada	France	Netherlands
2005	42.96	42.42	39.96
2006	41.04	40.76	38.02
2007	39.44	38.52	36.18
2008	38.09	36.17	34.25
2009	37.11	33.89	32.35
Average remainder	38.73	34.18	31.69

8. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated by management based on the Trust's net ownership interest in all wells and facilities, estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Trust has estimated the net present value of its asset retirement obligations to be $51.7 million as at December 31, 2004 (2003 – $15.6 million) based on a total future liability of $184.7 million. These payments are expected to be made over the next 49 years with most coming within the time frame of 25-30 years. The Trust used a credit adjusted risk free rate of 8% and an inflation rate of 1.5% to calculate the present value of the asset retirement obligation.

The following table reconciles the Trust's total asset retirement obligation:

	2004	2003
Carrying amount, beginning of period	**$ 15,570**	$ 14,185
Increase in liabilities in the period	**35,138**	2,285
Disposition of liabilities in the period	**(1,281)**	(2,034)
Accretion expense	**2,261**	1,134
Carrying amount, end of period	**$ 51,688**	$ 15,570

9. LONG-TERM DEBT

As at December 31, 2004, the Trust had a credit facility consisting of a revolving term loan of $240 million increasing to $270 million upon completion of certain security arrangements. The revolving period under the term loan is expected to expire on June 30, 2005. That revolving period may be extended, at the option of the lenders, for a further 364 days. If the lenders convert the revolving credit facility to a non-revolving credit facility, the amounts outstanding under the facility become repayable 12 months after the end of the revolving period. The cost of funds borrowed under the credit facility is calculated by reference to a Canadian chartered bank's prime rate or United States' base rate or a specified adjusted interbank deposit rate, stamping fee or discount rate, depending on the form of borrowing. The average interest rate for borrowing in 2004 was 4.9% (2003 – 4.5%). Security for amounts outstanding is provided by, among other things, floating-charge oil and gas debentures over all of the present and after-acquired assets of the Trust. In addition, subsidiaries of the Trust, Vermilion REP S.A. and Vermilion Oil & Gas Netherlands B.V., as guarantors of the Trust's loan, have provided security over their assets.

10. FUTURE INCOME TAXES

The components of the future income tax liability at December 31, 2004 and 2003 are as follows:

	2004	2003
Capital assets	$ 163,619	$ 157,177
Asset retirement obligation	(17,626)	(5,621)
Share issue costs	(313)	(358)
	$ 145,680	$ 151,198

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 38.87% (2003 – 40.75%), as follows:

	2004	2003
Earnings before income taxes, other items and discontinued operations	$ 47,074	$ 28,170
Canadian corporate tax rate	38.87%	40.75%
Expected tax expense	18,298	11,479
Increase (decrease) in taxes resulting from:		
Income attributable to the unitholders	(40,272)	(33,059)
Non-deductible Crown payments	12,628	19,408
Resource allowance	(8,378)	(11,542)
Foreign tax rate differentials*	861	(1,212)
Statutory rate changes	(5,836)	(13,488)
Capital taxes	525	761
Option conversion	-	6,853
Unit compensation expense	10,221	3,221
France tax assessments	7,090	-
Pool variances	1,206	(943)
Foreign exchange	(789)	(882)
Other	709	863
(Recovery of) provision for income taxes	$ (3,925)	$ (18,866)

* The corporate tax rate in France is 35.3% and 50% in the Netherlands.

At December 31, 2004, the Trust had approximately $178.9 million (2003 - $226.2 million) of tax deductions for Canadian income tax purposes, approximately $56.5 million (2003 - $69.7 million) of tax deductions for income tax purposes in France and approximately $71.4 million of deductions for income tax purposes in the Netherlands.

In 2004 a reduction in the Alberta corporate income tax rate was substantively enacted. This reduction amounted to a recovery of future income taxes of approximately $2 million in 2004. During the year ended December 31, 2003, reductions in Canadian corporate income tax rates were substantially enacted. The enacted rates are to be phased in over five years starting in 2003. As a result, the Trust's future income tax rate decreased to approximately 34% compared with 36% in the prior year. The future income taxes recovery includes the impact of this rate reduction and the tax rate changes in France on future income taxes.

11. UNITHOLDERS' CAPITAL AND CONTRIBUTED SURPLUS

Pursuant to the Plan of Arrangement, 51.5 million units of the Trust and 6.0 million exchangeable shares of the Company were issued in exchange for all of the outstanding shares of the Company, a wholly owned subsidiary of the Trust, on a one-for-one basis.

As per the Plan of Arrangement, shareholders of the Company received one trust unit or one exchangeable share in the Company for each common share held. In addition, Vermilion shareholders received one share in a separate publicly listed oil and gas company, Clear for each three common shares held (Note 5).

The exchangeable shares are convertible into trust units based on the exchange ratio, which is adjusted monthly to reflect the distribution paid on the trust units. Cash distributions are not paid on the exchangeable shares. During the year ended December 31, 2004, 0.2 million exchangeable shares were converted into 0.2 million trust units based on the exchange ratio at the time of conversion (2003 – 1.2 million shares converted). On the 10th anniversary of the issuance of the exchangeable shares, subject to extension of such date by the Board of Directors of the Company, the exchangeable shares will be redeemed for trust units on the basis of an exchange ratio as at the last business day prior to the redemption date (see Note 12).

The Trust established a Distribution Reinvestment Plan ("DRIP") in conjunction with the Trust's transfer agent to provide the option for unitholders to reinvest cash distributions into additional trust units issued from treasury. In 2004, the Trust issued 0.4 million units for proceeds of $6.7 million (2003 – 0.5 million units for proceeds of $6.2 million).

	Number of Shares	Amount
COMMON SHARES OF VERMILION RESOURCES LTD.		
Balance as at December 31, 2002	55,866,918	$ 140,557
Issued upon exercise of stock options	267,100	1,201
Balance, January 21, 2003, prior to Plan of Arrangement	56,134,018	141,758
Trust units issued on cancellation of employee stock options (Note 5)	1,346,449	16,817
Transfer of net assets to Clear Energy Inc. (Note 5)	-	(24,881)
Trust units issued	(51,480,467)	(119,739)
Exchangeable shares issued	(6,000,000)	(13,955)
	-	$ -

	Number of Units	Amount
TRUST UNITS		
Unlimited number of trust units authorized to be issued		
Issued pursuant to Plan of Arrangement January 22, 2003	51,480,467	$ 119,739
Distribution reinvestment plan	457,905	6,209
Issued on conversion of exchangeable shares	1,218,920	15,158
Trust units issued for cash	6,050,000	85,305
Unit issue costs	-	(4,565)
Unit rights exercised for cash	1,300	12
Balance as at December 31, 2003	59,208,592	221,858
Distribution reinvestment plan	382,692	6,662
Issued on conversion of exchangeable shares	209,846	3,204
Transfer from contributed surplus on unit right exercise	-	7,369
Trust units issued for bonus plan	49,630	825
Unit rights exercised for cash	856,900	8,010
Balance as at December 31, 2004	60,707,660	$ 247,928

11. UNITHOLDERS' CAPITAL AND CONTRIBUTED SURPLUS (Continued)

	2004	2003
CONTRIBUTED SURPLUS		
Opening balance	**$ 10,100**	$ -
Discontinued operations	**(1,800)**	-
Unit compensation expense	**26,766**	10,100
Transfer to unitholders' capital on unit option exercise	**(7,369)**	-
Ending balance	**$ 27,697**	$ 10,100

12. NON-CONTROLLING INTEREST

The Trust retroactively applied EIC-151 "Exchangeable Securities Issued by a Subsidiary of Income Trusts" in 2004. Per EIC-151, if the exchangeable shares issued by a subsidiary are transferable to third parties, they must be reflected as non-controlling interest on the consolidated balance sheet and in turn net income must be reduced by the amount of net income attributable to the non-controlling interest.

The exchangeable shares are mandatorily converted into trust units upon redemption by the exchangeable share holder. The Company holds the option to redeem all outstanding exchangeable shares for trust units or cash on or before January 22, 2013 and it is the intention of the Trust that trust units would be issued upon redemption of the exchangeable shares. On or before January 22, 2013, there will be no remaining non-controlling interest as all exchangeable shares will have been converted to trust units by that time.

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

	2004	2003
EXCHANGEABLE SHARES		
Opening number of exchangeable shares	**4,848,029**	-
Issued pursuant to Plan of Arrangement January 22, 2003	**-**	6,000,000
Exchanged for trust units	**(172,068)**	(1,151,971)
Ending Balance	**4,675,961**	4,848,029
Ending exchange ratio	**1.26626**	1.13151
Trust units issuable upon conversion	**5,920,982**	5,485,593

Following is a summary of the non-controlling interest for 2004 and 2003:

	2004	2003
Non-controlling interest, beginning of year	**$ 15,129**	$ -
Book value of exchangeable shares	**-**	13,955
Reduction of book value for conversion to trust units	**(725)**	(3,004)
Current period net earnings attributable to non-controlling interest	**8,665**	4,178
Non-controlling interest, end of year	**$ 23,069**	$ 15,129

13. UNIT COMPENSATION PLANS

The Trust has a unit rights incentive plan that allows the Trust to issue rights to acquire trust units to directors, officers and employees. The Trust is authorized to issue up to 6.0 million unit rights; however, the number of trust units reserved for issuance upon exercise of the rights shall not at any time exceed 10% of the aggregate number of issued and outstanding trust units of the Trust. Unit right exercise prices are equal to the market price for the trust units on the date the unit rights are issued. If certain conditions are met, the exercise price per unit may be calculated by deducting from the grant price the aggregate of all distributions, on a per-unit basis, made by the Trust after the grant date. Rights granted under the plan vest over a three-year period and expire five years after the grant date.

The Trust accounts for their Unit Rights Incentive Plan using the intrinsic value of the unit rights at the date of exercise or at the date of the consolidated financial statements for unexercised rights. Using intrinsic values, unit compensation expenses are deferred and recognized in earnings over the vesting period of the Unit Rights Incentive Plan.

The fair value of the unit rights cannot be determined because of the nature of the reducing exercise price feature. Unit compensation expense has been determined using the excess of the unit price as at the date of the consolidated financial statements over the exercise price for unit rights issued since January 22, 2003, and outstanding as at the date of the consolidated financial statements.

The following table summarizes information about the Trust's unit rights:

	2004		2003	
	Number of Unit Rights	**Weighted Average Exercise Price**	**Number of Unit Rights**	**Weighted Average Exercise Price**
Opening Balance	**4,543,000**	**$ 11.59**	-	$ -
Granted	**1,471,100**	**18.10**	4,825,300	11.58
Cancelled	**(413,100)**	**11.81**	(282,300)	11.45
Exercised	**(856,900)**	**9.35**	-	-
Closing balance	**4,744,100**	**$ 13.99**	4,543,000	$ 11.59

A summary of the plan as at December 31, 2004 is as follows:

Range of Exercise Price at Grant Date	Adjusted Exercise Price	Number of Rights Outstanding	Remaining Contractual Life of Right (Years)	Number of Rights Exercisable
$11.45	$7.54	2,961,200	3.1	987,067
$11.46 - $15.00	$7.72 - $11.26	352,500	3.2 – 4.0	103,933
$15.01 - $19.56	$12.97 - $17.52	1,430,400	4.0 – 5.0	-

Verenex Energy Inc. Compensation Plans

Stock Option Plan

Verenex, one of the Trust's subsidiaries, has a stock option plan that allows the directors, officers and employees of Verenex to be issued rights to acquire common shares of Verenex. Verenex is authorized to issue up to 2.25 million stock options, being 10% of the shares outstanding at June 29, 2004. However, the number of common shares reserved for issuance upon exercise of the stock options shall not at any time exceed 10% of the aggregate number of issued and outstanding common shares of Verenex. Stock option exercise prices are equal to the market price for the common shares on the date immediately prior to the date the stock option is granted. Stock options granted in the period vest over three years and expire five years after the grant date. The remaining contractual life of the options is 4.51 years and at December 31, 2004 no stock options were exercisable.

	2004	
	Number of Options	**Weighted Average Exercise Price**
Outstanding, beginning of year	-	-
Granted	1,535,000	$ 2.51
Outstanding, end of year	1,535,000	$ 2.51

13. UNIT COMPENSATION PLANS (Continued)

Performance Warrants

Verenex has also issued performance warrants with each performance warrant exercisable into one common share at an average exercise price of $2.50. Verenex is authorized to create and issue up to 2.13 million performance warrants under this program.

One-half of the performance warrants become exercisable if the holder continues in their capacity with Verenex until April 15, 2005 and if at any time during the term, the one-month weighted average trading price of the shares is equal to or greater than $3.75 per share. One-half will be exercisable if the one-month weighted average trading price of the shares is equal to or greater than $4.25 per share and the holder continues in their capacity until April 15, 2006. The performance warrants expire at the close of business on June 28, 2011. The remaining contractual life of the warrants is 6.5 years and at December 31, 2004 no warrants were exercisable.

The following table summarizes information about the performance warrants:

Year Ended December 31, 2004	Number of Performance Warrants	Weighted Average Exercise Price
Opening balance	-	$ -
Granted	1,944,250	2.50
Closing balance	1,944,250	$ 2.50

Verenex accounts for their stock option plan and performance warrants using the Black-Scholes option pricing model. The assumptions used in the computation of the fair value of the stock options and performance warrants are as follows:

	Stock Options	Performance Warrants
Risk free interest rate	4.5%	4.5%
Expected life	5 years	7 years
Volatility	50%	50%
Fair value	$1.22	$1.13

14. PER-UNIT AMOUNTS

The following table shows the effect of dilutive securities on the weighted average trust units outstanding:

	2004	**2003**
BASIC		
Net earnings from continuing operations per unit	**$0.79**	$0.80
Net earnings per unit	**$1.81**	$0.78
Weighted-average number of units outstanding (thousands)	**60,166**	53,115
DILUTED		
Net earnings from continuing operations per unit	**$0.77**	$0.80
Net earnings per unit	**$1.77**	$0.77
Weighted-average number of units outstanding (thousands)	**66,375**	59,093

The number of units used to calculate diluted earnings per unit for the year ended December 31, 2004, of 66.4 million (2004 - 59.1 million) included the weighted-average number of units outstanding of 60.2 million (2003 – 53.1 million) plus 0.3 million (2003 - 0.5 million) units related to the dilutive effect of unit rights and 5.9 million for outstanding exchangeable shares at the period end exchange ratio (2003 – 5.5 million).

Diluted net earnings per unit discussed above did not include 990,800 (2003 -138,300) unit rights that would be anti-dilutive because the respective exercise prices exceeded the average market price of the units.

The unrecognized compensation cost is considered to be part of the assumed proceeds to purchase trust units under the treasury stock method.

15. DERIVATIVE INSTRUMENTS

Risk Management Activities

The nature of the Trust's operations result in exposure to fluctuations in commodity prices, interest rates and foreign currency exchange rates. The Trust monitors and when appropriate, uses derivative financial instruments to manage its exposure to these risks. The Trust is exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments.

The Trust uses power swap agreements to manage the risk associated with fluctuating electricity costs. The Trust has entered into swaps for 2.5 mw/h at $45.75 per mwh in 2005 and 2.0 mw/h at $48.50 per mwh in 2006.

The Trust uses oil swap agreements to manage the risk associated with fluctuating commodity prices on the sale of crude oil. The Trust does not obtain collateral or other security to support its oil swap agreements as the majority of the economic hedges are with the Trust's banking syndicate. However, any swap agreement with any of its banking syndicate members rank pari-passu with the security arrangement within the bank loan facility.

Risk Management: Oil	bbls/d	US$/bbl
Fixed Price Swaps – WTI		
2005 Average	1,500	$24.80
Fixed Price Swaps - BRENT		
2005 Average	1,500	$23.37

As discussed in Note 3, on January 1, 2004 the fair value of all outstanding derivative financial instruments that are not recorded as accounting hedges were recorded on the consolidated balance sheet with an offsetting amount to deferred charges. The deferred charge is recognized into revenue over the life of the associated contracts. Of the total deferred charge of $14,427 recorded at January 1, 2004, $9,709 has been recognized as a charge to revenue in the year ended December 31, 2004 and the balance will be recognized as follows:

2005	Quarter 1	$1,173
	Quarter 2	1,173
	Quarter 3	1,186
	Quarter 4	1,186
Remaining total to be recognized		$4,718

Changes in fair value after January 1, 2004 are recorded on the consolidated balance sheet with the associated unrealized gain or loss recorded in net earnings. The estimated fair value of all derivative financial instruments is based on quoted market prices or, in their absence, third party market indications and forecasts. Unrealized gains or losses and realized gains or losses are recorded as a separate element of earnings.

The following table presents a reconciliation of the change in the unrealized amounts from January 1, 2004 to December 31, 2004:

	Fair Value	Total Gain (Loss)
Fair value of contracts, January 1, 2004	$ (14,427)	$ -
Change in fair value of contracts still outstanding at December 31, 2004	(7,183)	(7,183)
Contract settlements realized during the period	-	(31,414)
Fair value of contracts entered into during the period	-	-
Fair value of contracts outstanding, end of period	$ (21,610)	$ (38,597)

At December 31, 2004, the fair value amounts are recorded in the consolidated balance sheet as follows:

Fair value of derivative instruments	
Current asset	$ 68
Current liability	(21,678)
Total fair value of derivative instruments	$ (21,610)

15. DERIVATIVE INSTRUMENTS (Continued)

Fair Values

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt approximated their fair values as at December 31, 2004 and 2003 as a result of the short-term nature of these instruments and, in the case of long-term debt, having variable interest rates which approximate market value.

16. CASH FLOW INFORMATION

The following amounts represent the changes in non-cash working capital per balance sheet accounts:

	2004	2003
Accounts receivable	**$ (16,843)**	$ 12,544
Crude oil inventory	**(991)**	(270)
Prepaid expenses and other	**(2,073)**	1,750
Accounts payable and accrued liabilities	**5,140**	(3,616)
Foreign exchange	**219**	(315)
Changes in non-cash working capital	**$ (14,548)**	$ 10,093

17. SEGMENTED INFORMATION

The Trust has operations principally in Canada, France and the Netherlands. The Netherlands assets were acquired effective May 19, 2004. Discontinued operations include all assets in Trinidad which was formerly included as a segment. The Trust's entire operating activities are related to exploration, development and production of petroleum and natural gas.

	2004	2003
PETROLEUM AND NATURAL GAS REVENUE		
Canada	**$ 212,567**	$ 241,130
France	**99,829**	73,016
Netherlands	**42,129**	-
	$ 354,525	$ 314,146
NET EARNINGS		
Canada	**$ 90,293**	$ 34,400
France	**7,987**	6,816
Netherlands	**10,637**	-
	$ 108,917	$ 41,216
FUNDS FROM OPERATIONS		
Canada	**$ 107,187**	$ 102,926
France	**31,458**	41,835
Netherlands	**31,534**	-
	$ 170,179	$ 144,761
CAPITAL EXPENDITURES		
Canada	**$ 31,722**	$ 36,450
France	**35,028**	30,469
Netherlands	**94,499**	-
	$ 161,249	$ 66,919
TOTAL ASSETS		
Canada	**$ 433,949**	$ 544,163
France	**268,801**	236,426
Netherlands	**141,852**	-
	$ 844,602	$ 780,589

18. RELATED PARTY TRANSACTIONS

During the period, Vermilion paid for various expenditures on behalf of Verenex. These transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These transactions were undertaken under the same terms and conditions as transactions with non-related parties.

19. COMMITMENTS AND CONTINGENCIES

On September 25, 2001, a tax assessment notice was received from the Direction Générale des Impots regarding the wholly owned subsidiary in France, Vermilion REP S.A. The notice advised that the Trust is liable for a registration fee that was owed at the time of the purchase of the French properties in 1997 in the amount of $4.5 million Euro (approximately CDN $7.5 million), including interest charges for late filing. The Trust will be required to pay the registration fee, and as such, the amount (2.6 million Euro, as the tax authorities have waived the interest owing) has been accrued for in the consolidated financial statements at December 31, 2004.

The Trust has various commitments and guarantees in the normal course of business, none of which, in managements view, are significant.

20. GUARANTEES

In the normal course of operations, the Trust executes agreements that provide for indemnification and guarantees to counter-parties in transactions such as the sale of assets and operating leases.

These indemnifications and guarantees may require compensation to counterparties for costs and losses incurred as a result of various events, including breaches of representations and warranties, loss of or damages to property, environmental liabilities or as a result of litigation that may be suffered by the counterparties.

Certain indemnifications can extend for an unlimited period and generally do not provide for any limit on the maximum potential amount. The nature of substantially all of the indemnifications prevents the Trust from making a reasonable estimate of the maximum potential amount that might be required to pay counterparties as the agreements do not specify a maximum amount, and the amounts depend on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time.

21. COMPARATIVE FIGURES

Certain of the prior-period numbers have been reclassified to conform with the current period presentation.

22. SUBSEQUENT EVENTS

On February 1, 2005, the Trust announced that it has entered into a letter of intent to acquire 4,800 bopd of production through a 60% operated interest in an offshore field located on Western Australia's Northwest Shelf. The purchase price for the proposed transaction is approximately C$95 million effective January 1, 2005, subject to normal closing adjustments, and the transaction is scheduled to close by mid-March 2005. Closing is subject to the parties entering into a definitive purchase and sale agreement, the satisfaction of all conditions precedent and the receipt of all necessary regulatory approvals. The transaction is also subject to the waiver of first rights of refusal by the owner of the remaining 40% working interest.