VERMILION
ENERGY TRUST

ANNUAL REPORT

2007

FINANCIAL STATEMENTS

AND

MANAGEMENT'S DISCUSSION AND ANALYSIS

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ANNUAL AND SPECIAL MEETING

May 2, 2008 at 10:00 a.m.
The Grand Lecture Theatre
Metropolitan Centre
333 – 4th Avenue S.W.
Calgary, Alberta

ABBREVIATIONS

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

DISCLAIMER

This document contains forward-looking financial and operational information including earnings, cash flow, unitholder distributions, debt levels, production, reserves and capital expenditure projections. These projections are based on the Trust's expectations and are subject to a number of risks and uncertainties that could materially affect the results. These risks include, but are not limited to, future commodity prices, exchange rates, interest rates, geological risk, reserves risk, political risk, production demand, transportation restrictions, risks associated with changes in tax, royalty and regulatory regimes and risks associated with international activities. Additional risks and uncertainties are described in the Trust's Annual Information Form which is filed on SEDAR at www.sedar.com.

Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in the Trust's securities should not place undue reliance on these forward-looking statements. Forward looking statements contained in this document are made as of the date hereof and are subject to change. The Trust assumes no obligation to revise or update forward looking statements to reflect new circumstances, except as required by law. Certain natural gas volumes have been converted on the basis of six thousand cubic feet of gas to one barrel equivalent of oil. Barrels of oil equivalent (boe's) 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.

PRESIDENT'S MESSAGE TO UNITHOLDERS

Dear Unitholders:

Vermilion continues to provide stability for unitholders. Despite the current uncertainty in global markets and soft natural gas prices in North America, Vermilion has achieved sector-leading growth, a result of our oil-weighted portfolio of properties, value-driven strategy and conservative fiscal policies generating per-unit growth of our assets.

In 2007, oil prices remained strong worldwide, natural gas prices in North America continued to be weak and stock markets were volatile. While Vermilion achieved new records in production and funds from operations in 2007, the markets seemed more concerned with sub-prime loans, a pending U.S. recession and disconcerting government policies concerning income trusts in Canada and oil and gas royalties in Alberta. Nonetheless, Vermilion delivered top-quartile total-return performance in 2007 as well as for the past three year and five year periods. Including the reinvestment of distributions, Vermilion's compound average annual rate of return for the past five years has surpassed 35%.

The oil and gas industry has always been subject to a certain amount of volatility, driven by fluctuating commodity prices, uncertain government actions, competitive cost pressures and the inherent risk in locating and extracting a product miles below the earth's surface. Vermilion is proud to provide investors with a stability seldom seen in this sector. We have paid a constant stream of distributions to our unitholders for the past five years and in December, we raised our distribution by 12%. Management is confident we can maintain stable distributions at this new and higher level over the long term.

Vermilion's stability stems not only from the high quality of our assets but also from our conservative fiscal practices. We have the lowest total payout ratio among all conventional Canadian energy trusts. We ensure our combined outlays including net distributions, development capital programs and asset retirement expenditures, are less than our total funds from operations. Our balance sheet is one of the strongest in the sector with total net debt equal to approximately one year's trailing funds from operations. Additionally, within the next two years, we expect to capitalize on our significant equity interest in Verenex Energy Inc.

Vermilion also provides stability to its stakeholders by adhering to strong core values at all levels of the Trust. Vermilion's Board of Directors was acclaimed for excellence in governance practices that included board composition, compensation, shareholder rights, disclosure, accountability and total return performance. Vermilion ranked #1 among all of Canada's income trusts in the Globe & Mail's annual Board Games survey. The Board also ranked in the top ten out of 275 companies reviewed in Canadian Business Magazine's annual governance survey.

The world demand for oil is ever increasing, while supply is beginning to stagnate. This has resulted in strong upward pressure on oil prices that bodes well for Vermilion. In 2007, approximately 75% of Vermilion's revenues were related to oil prices. The Trust's five largest oil pools held a combined original oil-in-place of approximately 1.5 billion barrels. These fields have produced 545 million barrels to date and have remaining booked reserves of only 59.8 million barrels. Therefore, the most interesting number is our remaining unbooked resource potential - nearly 900 million barrels of oil. If we were successful in achieving our goal of applying existing secondary and tertiary recovery technologies to increase recovery factors by only 5%, we would have an additional 75 million barrels of oil. Compared to Vermilion's total reserve base of 127.6 million barrels of oil equivalent, this potential increase would be significant.

The good news is that we own these reservoirs and know where to find the oil. Increasing the amount of oil that can be recovered from these pools is not a simple task; it requires applying improved technology, incremental capital, and patient and methodical processes. Vermilion continues to increase our commitment of resources and personnel to this project, which we expect will yield positive results for our unitholders over the long term.

While focused on oil, we are not ignoring natural gas. Pricing weakness in Canadian natural gas markets combined with cost pressures and financial leverage has left a number of producers in strained conditions. We find this is often the best time to acquire assets and are continuing to review some interesting opportunities. While the timing of a turnaround in North American natural gas markets remains uncertain, Vermilion has the financial strength and patience to buy these assets now and capture their value at the opportune time.

Vermilion has always focused on value creation rather than growth. So, it may surprise some investors that Vermilion's 26% growth in reserves per unit and 10% growth in production per unit over the past five years rank the second highest among our entire peer group of conventional energy trusts. Vermilion was the only conventional energy trust to increase distributions in 2007, a time when one-half of our peers reduced their distributions.

We increased our production in Canada, France and Australia in 2007. On the cost side, we are achieving targeted economies of scale in the four countries where we operate. We continue to identify organic growth opportunities in all our jurisdictions and are continuously evaluating acquisition candidates.

The past year did not come without challenges. Early in 2007, a tank failure at the Ambès terminal in France caused us to temporarily set aside a number of exciting opportunities on our newly acquired assets in that country. Our France team tackled this loss by putting into place a successful and unprecedented trucking operation, thereby minimizing the production impact of this incident. Their efforts were a tribute to our respect for safety and the environment and our responsibility to all of our stakeholders.

During the summer, Vermilion drilled the Orca 1 well offshore France. This was the Trust's first operation of a major offshore project and its efficient implementation was a notable success. However, despite having properly identified a competent structure with all the positive characteristics of a good reservoir, the well was dry and abandoned. It was a worthwhile venture for our unitholders as this exploration opportunity had the potential to double our corporate reserves for a nominal after-tax cost.

In October, the Alberta Government announced a new royalty regime for the province. Combined with the Federal Government's ruling on income trusts a year earlier, investors have become increasingly unsettled in their view of energy opportunities in the Canadian market. Vermilion believes our balanced international assets, unlike the assets of many of our peers who operate solely in Canada, will provide investors with some shelter from both of these government initiatives.

To capitalize on the oil-weighted opportunities in our portfolio, Vermilion has shifted much of our development capital program for 2008 to our international assets. We look forward to building on the success of early drilling results in the Netherlands as we build a longer-term exploration and development plan. The planned drilling of two wells in the Australian Wandoo field in the third quarter of 2008 is expected to increase production in 2009. In France, we intend to pick up where we left off, as the Ambès pipeline is expected to return to service by mid-year and workover activities will resume with gusto. And while we may reduce our Canadian spending in 2008, we are evaluating some attractive acquisitions in this depressed environment.

Vermilion's leverage to oil prices, rich portfolio of assets, conservative value-creation business strategy and financial fortitude should continue to provide investors with the stability and growth you have come to expect from the Trust. I would like to thank all of Vermilion's dedicated employees and the Board of Directors for their efforts in striving for excellence and I would like to thank you, our unitholders, for continuing to put your trust in our hands.

("Lorenzo Donadeo")

Lorenzo Donadeo
President and Chief Executive Officer
February 28, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis (MD&A) dated March 17, 2008 of Vermilion's operating and financial results for the years ended December 31, 2007 and 2006. This discussion should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2007 and 2006, together with accompanying notes.

A discussion of Vermilion's operating and financial results for the fourth quarter of 2007 is contained in Vermilion's press release dated March 3, 2008 filed on The System for Electronic Document Analysis and Retrieval (SEDAR - www.sedar.com).

NON-GAAP MEASURES

This report includes non-GAAP ("Generally Accepted Accounting Principles") measures as further described herein. These measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable with the calculations of similar measures for other entities.

"Fund flows from operations" represents cash flows from operating activities before changes in non-cash operating working capital and asset retirement costs incurred. Management considers fund flows from operations and per unit calculations of fund flows from operations (see discussion relating to per unit calculations below) to be key measures as they demonstrate the Trust's ability to generate the cash necessary to pay distributions, repay debt, fund asset retirement costs and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, fund flows from operations provides a useful measure of the Trust's ability to generate cash that is not subject to short-term movements in operating working capital. As fund flows from operations also excludes asset retirement costs incurred, it assists management in assessing the ability of the Trust to fund current and future asset retirement costs. The most directly comparable GAAP measure is cash flows from operating activities. Fund flows from operations is reconciled to cash flows from operating activities below.

	Year Ended December 31	
($000's)	2007	2006
Cash flows from operating activities	$349,890	$306,033
Changes in non-cash operating working capital	31,965	32,252
Asset retirement costs incurred	4,056	4,217
Fund flows from operations	$385,911	$342,502

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

"Net debt" is the sum of long-term debt and working capital and is used by management to analyze the financial position and leverage of the Trust.

"Cash distributions per unit" represents actual cash distributions paid per unit by the Trust during the relevant periods.

"Cash distributions net" is calculated as actual cash distributions paid or payable for a given period less proceeds received by the Trust pursuant to the Distribution Reinvestment Plan ("DRIP"). Cash distributions both before and after DRIP are reviewed by management and are also assessed as a percentage of fund flows from operations to analyze how much of the cash that is generated by the Trust is being used to fund distributions.

"Total net distributions, capital expenditures, reclamation fund contributions and asset retirement costs incurred" is calculated as the addition of net cash distributions as determined above plus the following amounts for the relevant periods from the Trust's consolidated statements of cash flows: "Drilling and development of petroleum and natural gas properties", "Contributions to reclamation fund" and "Asset retirement costs incurred." This measure is reviewed by management and is also assessed as a percentage of fund flows from operations to analyze the amount of cash that is generated by the Trust that is available to repay debt and fund potential acquisitions.

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

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

“Diluted trust units outstanding” is the sum of “Adjusted basic trust units outstanding” plus outstanding awards under the Trust’s Unit Rights Incentive Plan and the Trust Unit Award Incentive Plan, based on current performance factor estimates.

FORWARD-LOOKING INFORMATION

This document contains forward-looking financial and operational information as to the Trust’s internal projections and expectations relating to future events or performance. In some cases, forward-looking information can be identified by terminology such as “may”, “will”, “should”, “expects”, “projects”, “anticipates” and similar expressions. These statements represent management’s expectations concerning future operating results or the economic performance of the Trust and are subject to a number of risks and uncertainties that could materially affect results. These risks include, but are not limited to future commodity prices, exchange rates, interest rates, geological risk, reserves risk, political risk, product demand and transportation restrictions, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

Highlights ($000’s except per unit amounts)	2007	2006	2005
Revenues	$707,334	$618,072	$529,938
Net earnings	164,286	146,923	158,471
Per unit, basic	2.48	2.30	2.57
Per unit, diluted	2.39	2.22	2.49
Fund flows from operations	385,911	342,502	278,165
Per unit, adjusted basic	5.28	4.86	4.50
Return on equity (%)	28.2	29.5	37.4
Total assets	1,668,123	1,462,839	1,111,739
WTI (US$/bbl)	72.34	66.21	56.56
AECO (CDN$/mcf)	6.45	6.53	8.77
Realized price ($/boe)	61.86	61.80	57.94
Fund flows netback ($/boe)	$ 33.75	$ 34.25	$ 30.15

2007 Summary of Quarterly Results ($000’s except per unit amounts)	Q1	Q2	Q3	Q4
Revenue	$148,808	$164,862	$187,939	$205,725
Net earnings	31,347	41,050	48,640	43,249
Per unit basic	0.48	0.62	0.73	0.65
Per unit diluted	$ 0.47	$ 0.60	$ 0.71	$ 0.62

2006 Summary of Quarterly Results ($000’s except per unit amounts)	Q1	Q2	Q3	Q4
Revenue	$147,286	$147,763	$167,301	$155,722
Net earnings	40,878	40,360	48,081	17,604
Per unit basic	0.65	0.63	0.75	0.27
Per unit diluted	$ 0.62	$ 0.61	$ 0.72	$ 0.26

OPERATIONAL ACTIVITIES

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

Canada

In Canada, the Trust participated in the drilling of 51 wells (35.1 net) during 2007, resulting in 29 gas wells (22.1 net), three oil wells (2.4 net), six abandoned wells (6.0 net) and 13 standing wells (4.6 net) awaiting further evaluation and tie-in. The total wells include 27 CBM and shallow gas wells (19.2 net). The abandoned wells were related to a shallow gas exploration venture in Saskatchewan, which has been discontinued.

France

In France, Vermilion drilled and completed two oil wells (2.0 net) in the Champotran/La Torche Field, participated in one oil well (0.2 net) at Itteville in the Paris Basin, and drilled one offshore well (0.5 net) which resulted in a dry and abandoned well. A comprehensive trucking operation was established as an interim replacement for the Ambès pipeline. More than 9,500 truckloads carrying approximately 1.5 million barrels of oil were transported from producing facilities to shipping terminals, virtually incident free, reflecting Vermilion's strong commitment to safety and the environment. Ongoing refurbishment of alternate tanks at the Ambès terminal should allow the resumption of the pipeline operations sometime in the first half of 2008.

Netherlands

In the Netherlands, Vermilion successfully drilled two wells (1.9 net) at Harlingen and one well (0.5 net) at De Blesse, validating the geological and geophysical interpretations for these wells and initiating a drilling program that is expected to resume in 2009. The Trust successfully replaced two oversized gas-powered, turbine compression units at the Harlingen gas treatment centre reducing total horsepower requirements and liberating 1.2 mmcf/d (200 boe/d) of fuel gas to the sales line.

Australia

The Wandoo Platform faced three evacuations in the first quarter of the year and one in the fourth quarter of the year. Downtime resulting from evacuations has been reduced through a series of platform modifications, and the total cyclone-related production shortfall was narrowed to approximately 240 boe/d in 2007. Vermilion completed the expansion of fluid handling capacity on the Wandoo platform in the second quarter of 2007. Two successful workover and recompletions in the Wandoo Field provided essential information that confirmed the opportunity to capture additional reserves and production by repositioning wellbores closer to the top of the oil column in this reservoir. A two well drilling program is planned for 2008 to initiate the capture of this opportunity. With success, Vermilion would review additional drilling opportunities in this field.

PRODUCTION

Average production in Canada during 2007 was 4,081 bbls/d of oil and NGL's and 47.7 mmcf/d of natural gas (12,038 boe/d) compared to 4,011 bbls/d of oil and NGL's and 41.0 mmcf/d of natural gas (10,843 boe/d) in 2006. Fourth quarter 2007 production averaged 12,065 boe/d, representing an increase of 12% over prior year levels.

Production in France averaged 8,809 boe/d in 2007, 13% higher than the 7,800 boe/d produced in 2006, reflecting the full year impact of the July 2006 acquisition, net of the reduction in volumes arising from the Ambès pipeline and terminal shut-down. Fourth quarter production of 8,946 boe/d in 2007 was 9% lower than the 9,841 boe/d produced in France during the fourth quarter of 2006, reflecting normal declines together with the impact of the Ambès situation and a reduction in workover activity in 2007.

Production in the Netherlands averaged 4,413 boe/d in 2007, down 11% from the 4,943 boe/d recorded in 2006, due primarily to normal reservoir declines and some maintenance downtime. Fourth quarter production averaged 4,468 boe/d in 2007 compared with 5,091 boe/d during the same period in 2006. As recently completed wells are tied in, production is expected to increase early in 2008 before resuming normal declines.

Australia production averaged 6,065 boe/d in 2007, compared to a full year average of 3,815 in 2006. Volumes in 2006 were impacted by storm related shut-downs during the first quarter and operations related shut-downs in the second half of 2006. In 2007 production was curtailed by cyclone action in the first half of the year, and boosted by the acquisition of the remaining 40% interest in the Wandoo Field in the second half of 2007. Production during the fourth quarter of 2007 averaged 7,591 boe/d, compared to 3,775 boe/d during the same period in 2006. The two wells scheduled for drilling in the second half of 2008 are expected to be tied-in by year end, but are not anticipated to contribute to 2008 production volumes.

	Year Ended December 31, 2007			Year Ended December 31, 2006			Year Ended December 31, 2005		
	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)
Canada	4,081	47.74	12,038	4,011	40.99	10,843	4,870	38.39	11,268
France [2]	8,621	1.13	8,809	7,576	1.35	7,800	5,478	1.30	5,695
Netherlands	40	26.24	4,413	31	29.47	4,943	28	28.70	4,812
Australia [1]	6,065	-	6,065	3,815	-	3,815	3,391	-	3,391
Total	18,807	75.11	31,325	15,433	71.81	27,401	13,767	68.39	25,166

1 Initial acquisition effective from March 31, 2005, subsequent acquisition of remaining 40% effective June 20, 2007

2 Vermilion Emeraude Rep SAS effective from July 10, 2006

2007 Quarterly Production (boe/d)	Q1	Q2	Q3	Q4
Canada	12,054	12,351	11,686	12,065
France	8,055	9,221	9,002	8,946
Netherlands	4,754	3,904	4,529	4,468
Australia [1]	4,227	5,440	6,955	7,591
Total	29,090	30,916	32,172	33,070

1 Acquisition of remaining 40% interest effective June 20, 2007

2006 Quarterly Production (boe/d)	Q1	Q2	Q3	Q4
Canada	10,919	10,883	10,823	10,745
France [1]	5,822	6,006	9,472	9,841
Netherlands	5,870	4,646	4,183	5,091
Australia	3,630	3,917	3,933	3,775
Total	26,241	25,452	28,411	29,452

1 Vermilion Emeraude Rep SAS effective from July 10, 2006

CAPITAL EXPENDITURES

Capital spending for the year totalled $305.2 million compared to $332.8 million spent in 2006. Of this total, approximately $126.2 million relates to the acquisition in Australia for the remaining 40% interest in the Wandoo Field and $3.4 million relates to a number of minor property acquisitions with the remainder spent on drilling and development activities.

Capital Expenditures ($000's)	2007	2006	2005
Land	$ 3,484	$ 2,025	$ 2,233
Seismic	491	2,555	12,116
Drilling and completion	89,081	48,559	43,929
Production equipment and facilities	61,586	58,160	25,111
Recompletions	11,021	15,280	21,163
Capitalized exploration administration and other	9,976	10,360	8,978
Drilling and development expenditures	175,639	136,939	113,530
Property acquisitions	129,605	26,435	94,967
Corporate acquisitions	-	169,445	91,613
	$305,244	$332,819	$300,110

Capital Expenditures by Country ($000's)	2007	2006	2005
Canada	$ 69,713	$111,216	$141,022
France	73,504	209,364	50,649
Netherlands	22,275	3,673	12,434
Australia	139,752	8,566	96,005
	$305,244	$332,819	$300,110

FINANCIAL REVIEW

The trust generated fund flows from operations of $385.9 million ($5.28 per adjusted unit) in the year ended December 31, 2007 compared to $342.5 million ($4.86 per adjusted unit) in 2006. The full year distributions in 2007 totalled $136.4 million ($2.06 per unit) compared to $130.6 million ($2.04 per unit) in 2006. Fund flows from operations for 2007 reflects a substantial reduction in current income taxes resulting from certain transactions, including the drilling of the offshore well in France and the property acquisition in Australia. This impact on current income taxes has been mostly reflected in the second half of the year when the Trust obtained certainty over both the completion of the transactions and their related tax effect.

Cash distributions as a percentage of fund flows from operations was 35.3% before the impact of the Trust's distribution reinvestment program ("DRIP"), which generated $36.0 million of cash to the Trust. Unitholders reinvest their monthly distributions to receive additional trust units equal to 5% of the DRIP units purchased with their distributions. After accounting for the DRIP, cash distributions as a percentage of fund flows from operations were 26.0%. This compares to cash distributions as a percentage of fund flows from operations of 38.1% before the impact of the DRIP and 32.7% after the DRIP in 2006.

Development capital expenditures during the year were $175.6 million. The total of net distributions (after DRIP), capital expenditures, reclamation fund contributions and asset retirement costs represented 73% of fund flows from operations in 2007 as compared to 77% in 2006.

Vermilion's net debt was $416.9 million at the end of 2007 compared with $354.8 million at the end of 2006. Vermilion was able to execute a $176 million development capital program, acquire $130 million of producing properties, declare over $100 million in net cash distributions, increase its equity position in Verenex by over $30 million and still maintain a strong financial position. The net debt at the end of the 2007 is equivalent to less than 1.1 times trailing fund flows from operations and only 0.8 times annualized fourth quarter funds from operations.

FUND FLOWS NETBACKS

Fund flows from operations was $385.9 million in 2007, up from $342.5 million in 2006. A slightly higher average wellhead price was recorded in 2007 as a result of a 9% increase in average WTI pricing compared with 2006, offset by the increased strength of the Canadian dollar.

2007 Fund Flows ($/boe)	Q1	Q2	Q3	Q4	2007	2006	2005
Oil and gas revenues	$56.83	$58.60	$63.50	$67.62	$61.86	$61.80	$57.94
Realized hedging gain or (loss)	0.31	(0.11)	0.01	(1.11)	(0.25)	(0.02)	(4.46)
Royalties (net)	(6.76)	(7.32)	(10.18)	(9.57)	(8.53)	(9.22)	(9.54)
Transportation	(1.58)	(2.30)	(2.13)	(1.97)	(2.01)	(1.05)	(0.99)
Operating costs	(10.40)	(9.91)	(10.16)	(11.28)	(10.45)	(9.65)	(7.89)
Operating netback	38.40	38.96	41.04	43.69	40.62	41.86	35.06
General and administration	(2.15)	(1.69)	(1.55)	(1.24)	(1.64)	(1.58)	(1.43)
Interest	(1.76)	(1.68)	(2.14)	(2.18)	(1.95)	(1.68)	(0.69)
Current and capital taxes	(5.37)	(3.23)	(3.44)	(0.23)	(2.98)	(4.29)	(2.71)
Proceeds on sale of investments	-	-	-	0.40	0.11	-	-
Foreign exchange	(0.11)	(2.11)	(0.54)	1.03	(0.41)	(0.06)	(0.08)
Fund flows netback	$29.01	$30.25	$33.37	$41.47	$33.75	$34.25	$30.15

2006 Fund Flows ($/boe)	Q1	Q2	Q3	Q4
Oil and gas revenues	$62.37	$63.80	$64.00	$57.47
Realized hedging gain or loss	(0.04)	(0.13)	(0.17)	0.23
Royalties (net)	(10.02)	(9.45)	(8.29)	(9.23)
Transportation	(1.04)	(1.07)	(1.06)	(1.03)
Operating costs	(8.62)	(9.25)	(10.03)	(10.52)
Operating netback	42.65	43.90	44.45	36.92
General and administration	(1.29)	(1.66)	(2.12)	(1.27)
Interest	(0.99)	(1.44)	(1.65)	(2.50)
Current and capital taxes	(5.66)	(6.83)	(4.96)	(0.27)
Foreign exchange	0.29	(0.80)	0.02	0.18
Fund flows netback	$35.00	$33.17	$35.74	$33.06

REVENUE

Total revenues for 2007 were $707.3 million compared to $618.1 million in 2006. Vermilion's combined crude oil & NGL price was $74.08 per bbl in 2007, an increase of 1% over the $73.71 per bbl reported in 2006. The natural gas price realized in 2007 was $7.25 per mcf compared to $7.74 per mcf realized a year ago, a 6% year-over-year decrease.

	Year Ended December 31	
($000's except per boe and per mcf)	2007	2006
Crude oil & NGL's	$508,540	$415,245
Per boe	$74.08	$73.71
Natural gas	198,794	202,827
Per mcf	$7.25	$7.74
Combined	707,334	618,072
Per boe	$61.86	$61.80

DERIVATIVE INSTRUMENTS

Vermilion continues to manage its risk exposure through prudent commodity and currency economic hedging strategies. Vermilion has the following collars and puts in place at the end of 2007:

Risk Management: Oil	Funded Cost	bbls/d	US$/bbl
Collar – WTI			
Q1 2008	US$0.50/bbl	500	$63.00 - $79.05
Q2 2008	US$0.50/bbl	500	$64.30 - $76.00
Q3 2008	US$0.28/bbl	250	$70.00 - $90.00
Q4 2008	US$0.50/bbl	250	$69.00 - $90.00
Collar - BRENT			
Q1 2008	US$0.25/bbl	500	$68.42 - $83.00
Q1 2008	US$0.25/bbl	500	$69.25 - $82.00
Q2 2008	US$0.50/bbl	500	$64.00 - $80.10
Q2 2008	US$0.25/bbl	500	$67.20 - $82.00
Q3 2008	US$0.25/bbl	500	$66.40 - $82.00
Q3 2008	US$0.25/bbl	500	$66.60 - $82.00
Q3 2008	US$0.19/bbl	250	$65.00 - $90.00
Q4 2008	-	500	$68.20 - $81.00
Call Spread - BRENT			
2009 - 2011	US$5.73/bbl	700	$65.00 - $85.00

The impact of Vermilion's hedging program decreased cash netbacks by $0.25 per boe on a combined basis for 2007 compared to an economic hedging cost of $0.02 per boe in 2006. Oil hedging resulted in a $3.2 million cost for 2007 or $0.47 per boe. For 2006, oil hedging resulted in a $1.3 million cost for the year or $0.13 per boe. Gas hedging costs were negligible in 2007 and 2006.

ROYALTIES

Total royalties for the year decreased to $8.53 per boe in 2007 or 14% of sales compared with $9.22 per boe in 2006 or 15% of sales. The decrease is largely due to Vermilion's active capital program in Australia resulting in the Trust paying royalties at a reduced rate compared to 2006. Royalties in Canada, which are paid on a sliding scale basis, were relatively consistent year over year. Royalties did not change substantially in France, where for the most part, royalties are calculated on a unit of production basis. Production in the Netherlands is not subject to royalties.

	Year Ended December 31	
($000's except per boe and per mcf)	2007	2006
Crude oil & NGL's	$73,933	$70,941
Per boe	$10.77	$12.59
Natural gas	23,585	21,271
Per mcf	$0.86	$0.81
Combined	$97,518	$92,212
Per boe	$8.53	$9.22

OPERATING COSTS

Operating costs increased to $10.45 per boe in 2007 from $9.65 per boe in 2006. The increase in the dollar amount of operating costs over 2006 reflects the inclusion of a full year of expenses related to the acquisition of Vermilion Emeraude Rep SAS as well as the inclusion of expenses associated with the mid-2007 acquisition of the remaining 40% interest in the Wandoo Field in offshore Australia. On a per boe basis, operating costs in Canada have remained relatively consistent year over year. In France, per unit costs have increased as a result of the acquisition of the higher cost Vermilion Emeraude assets coupled with the impact of the oil spill at the Ambès terminal in 2007. The Trust has been reimbursed for a portion of the costs incurred as a result of the Ambès incident through proceeds of its insurance policies. There is the potential to recover additional costs, however, the timing and certainty of recovery is not determinable at this time and therefore no provision for additional recoveries has been made. Unplanned maintenance resulted in an increase in per boe operating costs in the Netherlands.

	Year Ended December 31	
($000's except per boe and per mcf)	2007	2006
Crude oil & NGL's	$75,102	$54,494
Per boe	$10.94	$9.67
Natural gas	44,415	41,998
Per mcf	$1.62	$1.60
Combined	$119,517	$96,492
Per boe	$10.45	$9.65

TRANSPORTATION

Transportation costs are a function of the point of legal transfer of the product and are dependent upon where the product is sold, product split, location of properties as well as industry transportation rates that are driven by supply and demand of available transport capacity. For Canadian gas production, legal title transfers at the intersection of major pipelines (referred to as "the Hub") whereas the majority of Vermilion's Canadian oil production is sold at the wellhead. The majority of Vermilion's transportation costs are made up of shipping charges incurred in the Aquitaine Basin in France where oil production is transported by tanker from the Ambès terminal in Bordeaux to the refinery. In Australia, oil is sold at the Wandoo B platform and in the Netherlands gas is sold at the plant gate, resulting in no transportation costs relating to Vermilion's production in these countries.

Transportation costs in France have increased as a result of the oil spill at the Ambès terminal as Vermilion is currently transporting some of its production to port by truck. It is expected that the terminal will resume operations in 2008.

	Year Ended December 31	
($000's except per boe)	2007	2006
Transportation	$22,926	$10,504
Per boe	$2.01	$1.05

GENERAL AND ADMINISTRATION EXPENSE

General and administration expense for the year increased to $1.64 per boe in 2007 from $1.58 per boe in 2006. The increase per boe is primarily a result of increased staffing levels combined with increased staff retention costs. Also contributing to the increase are consulting costs incurred in France as a result of the oil spill at the Ambès terminal.

	Year Ended December 31	
($000's except per boe)	2007	2006
General and administration	$18,726	$15,839
Per boe	$1.64	$1.58

UNIT COMPENSATION EXPENSE

A non-cash trust unit compensation expense of $1.22 per boe was recorded in 2007 compared to $2.44 per boe in 2006. This non-cash amount relates to the value attributable to long-term incentives granted to officers, directors and employees under the Trust Unit Rights Incentive Plan and the Trust Unit Award Plan.

	Year Ended December 31	
($000's except per boe)	2007	2006
Unit compensation expense	$13,985	$24,383
Per boe	$1.22	$2.44

INTEREST EXPENSE

Interest expense increased to $1.95 per boe in 2007 from $1.68 per boe in 2006 as a result of higher average debt levels. Debt levels are higher in 2007 primarily stemming from the Australia acquisition at the end of the second quarter of 2007. The Trust's interest rates have remained relatively consistent over the year.

	Year Ended December 31	
($000's except per boe)	2007	2006
Interest	$22,330	$16,781
Per boe	$1.95	$1.68

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

Depletion, depreciation and accretion expense increased to $18.49 per boe in 2007 from $16.23 per boe in 2006. The increase is due mainly to higher finding and development costs in Canada and France as well as the increase in the asset retirement obligation resulting primarily from the Australia acquisition.

	Year Ended December 31	
($000's except per boe)	2007	2006
Depletion, depreciation and accretion	$211,397	$162,254
Per boe	$18.49	$16.23

TAXES

The Trust's current tax provision has decreased to $2.98 per boe in 2007 from $4.29 per boe in 2006. In 2007 certain transactions, including the drilling of the offshore well in France and the property acquisition in Australia resulted in a substantial reduction in current income taxes associated with the Trust's international operating subsidiaries. This impact on current income tax has been mostly reflected in the second half of 2007 as the Trust obtained certainty over both the completion of the transactions and the related tax effect.

On June 22, 2007, the Canadian federal government passed legislation that enacted a tax on publicly traded income trusts as originally announced on October 31, 2006. The changes do not take effect until January 1, 2011, provided the Trust experiences only "normal growth" and no "undue expansion" before then. The government has defined "normal growth" parameters, relative to the market capitalization of the Trust's issued and outstanding publicly-traded trust units as of October 31, 2006. For the period from November 1, 2006 to December 31, 2007, a trust's permitted or "safe harbour" growth amount will be 40% of the October 31, 2006 market capitalization benchmark and for each of the years 2008 through and including 2010 will be 20% of the benchmark, cumulatively allowing growth of up to 100% until 2011. In addition, we understand that trusts may be able to issue equity to retire debt existing on October 31, 2006 without eroding their safe harbour limits. Vermilion's estimated market capitalization as defined by the government, was $2.4 billion at October 31, 2006 and outstanding indebtedness was approximately $400 million.

Our interpretation suggests that Vermilion may be able to largely mitigate the contemplated distribution tax for a period of time beyond 2011. Currently, Vermilion's foreign operations generate after tax cash flow and subsequently declare and pay dividends which do not attract additional taxes when received in Canada. We anticipate being able to flow through this dividend income to unitholders as part of the normal distributions paid and not attract the distribution tax on that portion of distributions made up of this dividend income. In addition, Vermilion increased the return on capital or taxable portion of its distribution for 2006 to 100% in order to preserve the tax basis it would have utilized to declare a portion of the 2006 distribution as a return of capital or tax deferred. The Trust expects that it will continue with this practice through 2010 to preserve the tax basis during the interim period prior to the implementation of the new rules. Under the legislation the portion of the distribution that represents a return of capital will not attract the distribution tax. This analysis is a general assessment of the impact on Vermilion and is not meant to be exhaustive or definitive.

Applying this legislation resulted in the recognition of future income taxes related to timing differences in Vermilion Energy Trust, the parent entity, whereas previously such differences were only recognized in relation to subsidiaries of the Trust. The related impact on the Trust's consolidated future income tax provision and future income tax liability related to this legislation was not material.

	Year Ended December 31	
($000's except per boe)	2007	2006
Current and capital tax	$34,033	$42,876
Per boe	$2.98	$4.29

FOREIGN EXCHANGE

A combined realized and unrealized foreign exchange gain of $1.01 per boe was recorded in 2007 with a loss of $1.30 per boe in 2006. The gain for the year ended December 31, 2007 is mostly due to the impact of the strengthening of the Canadian dollar on foreign currency denominated liabilities.

	Year Ended December 31	
($000's except per boe)	2007	2006
Foreign exchange loss (gain)	$(11,533)	$12,997
Per boe	$(1.01)	$1.30

EARNINGS

Net earnings in the year increased to $164.3 million or $2.48 per unit from $146.9 million or $2.30 per unit in 2006. The increase is mainly a result of increased operating revenues, as stronger price realizations more than offset increased operating costs.

LIQUIDITY AND CAPITAL RESOURCES

Vermilion's debt (net of working capital) on December 31, 2007 was $417 million. As at December 31, 2007, the Trust had an unsecured covenant based revolving credit facility in the amount of $625 million. The revolving period under the term loan is expected to expire in June 2008 and may be extended for an additional period of up to 364 days at the option of the lender. If the lenders convert the revolving credit facility to a non-revolving credit facility, the amounts outstanding under the facility become repayable 24 months after the end of the revolving period. Various borrowing options are available under the facility including prime rate based advances and bankers' acceptance loans.

Liquidity and Capital Resources	2007	2006	2005
Debt and working capital ($m)	$416,858	$354,809	$245,430
Bank facility ($m)	$625,000	$500,000	$410,000
Unused bank facility ($m)	$208,142	$145,191	$164,570
Debt-to-cash-flow ratio [1]	1.08	1.04	0.88
Debt-to-equity ratio [1]	0.66	0.66	0.54

1 Debt includes working capital. These are non-GAAP measures and may not be comparable to similar measures for other entities.

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

There is currently an active market for the equity financing of Canadian resource trusts. Accordingly, any future significant acquisition of producing properties is expected to be financed through additional bank debt combined with the issuance of trust units.

Internally generated cash is used primarily for distributions, internal capital requirements and contributions to the Trust's reclamation fund. Internal cash flow is significantly influenced by commodity prices. Other risks include exchange rates, interest rates and marketing opportunities, among others. For a thorough discussion of these risks and how they are managed by Vermilion, please see the section on Risk Management.

RECLAMATION FUND

Vermilion has established a reclamation fund for the ultimate payment of environmental and site restoration costs on its asset base. The reclamation fund is funded by Vermilion Resources Ltd. and its operating subsidiaries. Contribution levels to the reclamation fund are reviewed on a regular basis and are adjusted when necessary to ensure reclamation obligations associated with the Trust's assets will be substantially funded when the costs are forecast to be incurred.

ASSET RETIREMENT OBLIGATION

At December 31, 2007, Vermilion had recorded an asset retirement obligation of $163.4 million for future abandonment and reclamation of its properties compared to $127.5 million as at December 31, 2006. The increase is due mostly to a change in abandonment obligation estimates coupled with the additional obligation related to the Australia acquisition partially offset by the impact of foreign exchange.

DISTRIBUTIONS

Vermilion increased monthly distributions to $0.19 per unit, beginning in December of 2007, bringing total distributions to $2.06 per unit for the year. Distributions declared in 2007 totalled $136.4 million compared to $130.6 million for the same period in the prior year. The 12% increase in distributions is the first since Vermilion's conversion to a trust and follows 58 continuous months of distributions at $0.17 per month.

Since inception, the Trust has declared $614.8 million in distributions to unitholders as compared to unitholders capital of $380.9 million at December 31, 2007.

Proceeds from the Trust's distributions reinvestment program were $36.0 million in 2007 (2006 - $18.8 million).

Sustainability of Distributions

($000's)

	Three Months Ended Dec 31, 2007	Year Ended Dec 31, 2007	Year Ended Dec 31, 2006	Year Ended Dec 31, 2005
Cash flows from operating activities	$51,737	$349,890	$306,033	$245,116
Net earnings	$43,249	$164,286	$146,923	$158,471
Distributions declared	$35,564	$136,389	$130,638	$126,190
Excess of cash flows from operating activities over cash distributions declared	$16,173	$213,501	$175,395	$118,926
Excess of net earnings over cash distributions declared	$ 7,685	$ 27,897	$ 16,285	$ 32,281

Excess of cash flows from operating activities over cash distributions declared and net earnings over cash distributions declared are used to fund capital expenditures, asset retirement costs, reclamation fund contributions and debt repayments.

UNITHOLDERS' EQUITY

During 2007, approximately 2.6 million units were issued pursuant to the conversion of exchangeable shares, the Trust's bonus plan, the Trust's unit based compensation programs and unitholders' participation in the distribution reinvestment plan. Unitholders' capital increased during the same period by $45.3 million as a result of the issuance of those units and by $14.6 million as a result of contributed surplus transfer related to unit based compensation plans.

NON-CONTROLLING INTEREST – EXCHANGEABLE SHARES

The Trust has recorded non-controlling interest attributed to the issued and outstanding exchangeable shares in accordance with accounting requirements pursuant to EIC-151, "Exchangeable Securities Issued by Subsidiaries of Income Trusts" (see Note 2 of the consolidated financial statements for further discussion). The intent of this standard is that exchangeable shares of a subsidiary which are transferable to third parties, outside of the consolidated entity, represent a non-controlling interest in the subsidiary.

As at December 31, 2007 there were 4.5 million exchangeable shares outstanding at the exchange ratio of 1.55595 whereby 6.9 million trust units would be issuable upon conversion. The exchangeable shares are mandatorily converted into trust units upon redemption by the exchangeable shareholder. Vermilion 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 in 2007 of $68.6 million ($51.8 million in 2006) on the consolidated balance sheet represents the book value of exchangeable shares plus accumulated earnings attributable to the outstanding exchangeable shares. The reduction in 2007 and 2006 net income, respectively, of $16.8 million and $14.9 million, represents the net income attributable to the exchangeable shareholders. 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 or goodwill, as appropriate.

RISK MANAGEMENT

Crude oil and natural gas exploration, production, acquisition and marketing operations involve a number of risks. These risks include operational fluctuations in commodity prices, exchange rates, interest rates, exploration uncertainties, product demand, transportation restrictions and governmental regulatory changes.

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 distributions and its internal capital development program. Maintenance of a strong financial position and a stable cash flow stream through the development of long-life reserves is key to mitigating business risks.

To manage the adverse impact of significant movements in commodity prices, exchange rates and interest rates, Vermilion uses over-the-counter financial structures as well as fixed/collar structures as a part of physical natural gas sales. Vermilion has strict controls and guidelines in place and enacts transactions only with counter parties that have high credit ratings.

Vermilion maintains an insurance program consistent with industry practice to protect against losses from accidental destruction of assets, well blowouts, pollution and other potential business interruptions.

CURRENCY RISK

Vermilion's primary exposure to currency risk comes from a revenue stream that is denominated in U.S. dollars. Vermilion's exposure to fluctuations in the Euro and Australian dollar is limited primarily to reinvestment and repatriation of funds and forward-sale contracts can be used to mitigate these risks. The remaining cash flow from Vermilion's international operations is reinvested in each country, creating a natural hedge to the working capital and cash flow stream when they are converted to Euros and Australian dollars.

CRITICAL ACCOUNTING ESTIMATES

The Trust's financial and operating results contain estimates made by management in the following areas:

i. Capital expenditures are based on estimates of projects in various stages of completion;
ii. Revenues, royalties and operating costs include accruals based on estimates of management;
iii. Fair value of derivative instruments are based on estimates that are subject to fluctuation of commodity prices and foreign exchange rates;
iv. Depletion, depreciation and accretion are based on estimates of oil and gas reserves that the Trust expects to recover in the future;
v. Asset retirement obligations are based on estimates of future costs and the timing of expenditures;
vi. The future recoverable value of capital assets and goodwill are also based on estimates that the Trust expects to realize; and
vii. Unit compensation expense is determined using accepted fair value approaches which rely on historical data and certain estimates made by management.

SENSITIVITIES

Crude oil and natural gas prices may change significantly because of factors Vermilion cannot control. The following table provides a summary of estimated sensitivities to price fluctuations for pro-forma production levels and expenses for the year ended December 31, 2008.

	Cash Available for Distributions Per Unit and Exchangeable Shares	Cash Available for Distributions
Change in crude oil price by Cdn$1.00/bbl	$0.06	$4.9 million
Change in natural gas price by Cdn$0.10/mcf	$0.02	$1.7 million
Change in interest rate by one point	$0.06	$4.2 million
Change in Cdn/U.S. foreign exchange rate by one point	$0.05	$3.8 million
Change in Cdn/Euro foreign exchange rate by one point	$0.01	$0.5 million

OFF BALANCE SHEET ARRANGEMENTS

The Trust has certain lease agreements that are entered into in the normal course of operations. All leases are operating leases and accordingly no asset or liability value has been assigned in the balance sheet as of December 31, 2007.

The Trust uses a variety of options including funded and costless collars and puts to manage the risk associated with fluctuating commodity prices on the sale of crude oil and natural gas. The Trust does not obtain collateral or other security to support its financial derivatives as the majority of these instruments are with the Trust's banking syndicate.

The Trust has not entered into any guarantee or off balance sheet arrangements that would adversely impact the Trust's financial position or results of operations.

ENVIRONMENT, HEALTH AND SAFETY

Vermilion remains committed to conducting its activities in an environmentally responsible manner, protecting the health and safety of its employees and the public in every country in which it operates. It is a condition of employment that Vermilion personnel work safely and in accordance with established regulations and procedures.

In 2007, Vermilion remained committed to the principles of the Environment, Health and Safety Stewardship Program set out by the Canadian Association of Petroleum Producers. This voluntary initiative promotes continual improvement in the areas of environment, health and safety performance, supplemented by progress reports to stakeholders.

Vermilion continued its commitment to protect land, water and air, as policies and procedures, demonstrating leadership in these areas, were maintained and further developed in 2007. Examples of accomplishments during the year included:

- Reducing long-term environmental liabilities through decommissioning, abandoning and reclaiming well leases and facilities;
- Monitoring long-term liabilities through regular inspections;
- Continuing reductions in flaring and greenhouse gas emissions;
- Minimizing waste products by reducing, recycling and recovering; and
- Continuing risk management efforts with detailed emergency-response planning.

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2006 the CICA issued Section 1535 - “Capital Disclosures” which establishes disclosure standards about an entity’s capital structure and how it is managed. Section 3862 - “Financial Instruments – Disclosures” and Section 3863 - “Financial Instruments – Presentation” were also issued in December 2006 and establish standards for the presentation of financial instruments and non-financial derivatives and require additional disclosure to enable users to evaluate the significance and risks relating to financial instruments on an entity’s financial position. These three sections are effective for fiscal years beginning on or after October 1, 2007. The Trust does not anticipate that the adoption of these standards will have an impact on its results of operations and financial position.

In June 2007, the CICA issued Section 3031 - “Inventories.” This section enhances the guidance relating to the determination of inventory cost and effectively harmonizes the Canadian standard with the International Financial Reporting Standards equivalent. This section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The Trust does not anticipate that the adoption of this standard will have a material impact on its results of operations and financial position.

In June 2007, the CICA amended Section 1400 - “General Standards of Financial Statement Presentation,” to require an assessment and potential disclosure of an entity’s ability to continue as a going concern. The new requirements are effective for interim and annual periods beginning on or after January 1, 2008. These amendments will not impact the Trust’s consolidated financial statements.

On February 13, 2008, the Accounting Standards Board (“AcSB”) confirmed that the transition date to International Financial Reporting Standards (“IFRS”) from Canadian GAAP will be January 1, 2011 for publically accountable enterprises.

In February 2008, the CICA issued Section 3064 – “Goodwill and Intangible Assets” to replace Sections 3062 – “Goodwill and Other Intangible Assets” and 3450 – “Research and Development Costs”. Section 3064 incorporates guidance addressing when an internally developed intangible asset meets the criteria for recognition as an asset. This Section is effective for fiscal years beginning on or after October 1, 2008. The Trust does not anticipate that the adoption of this standard will have a material impact on its results of operations and financial position.

RECENTLY ADOPTED ACCOUNTING STANDARDS

Financial Instruments

On January 1, 2007 the Trust adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 - "Comprehensive Income", Section 3855 - "Financial Instruments", Section 3861 - "Financial Instruments – Presentation and Disclosure", and Section 3865 - "Hedges". These standards require that entities categorize financial instruments and measure certain financial instruments at fair value. In addition, these standards introduce the concept of comprehensive income within Canadian GAAP and establish new guidance relating to hedge accounting.

As a result of adopting Section 3855, the Trust's investments in marketable securities are now measured at fair value whereas previously they were carried at cost. Gains and losses associated with these securities are reflected in net earnings in the period in which they arise. Transaction costs and discounts are now added to the fair value of long-term debt on initial recognition whereas previously these amounts were deferred and amortized using the straight-line method over the term of the debt. Unamortized amounts were included in prepaid expenses and other on the consolidated balance sheet. The Trust does not currently use hedge accounting and accordingly risk management related derivatives continue to be accounted for at fair value with the associated gains and losses reflected in net earnings. As the Trust does not have any other comprehensive income, net earnings equal comprehensive income.

In accordance with the transitional provisions, prior periods have not been restated as a result of adopting these standards. The cumulative effect of the adoption of these new standards had the following impact on the Trust's consolidated balance sheet as at January 1, 2007:

	Increase (Decrease)
Prepaid expenses and other	$ (2,431)
Long-term investments	$ 4,704
Reclamation fund	$ 2,436
Long-term debt	$ (2,431)
Future income taxes	$ 1,375
Retained earnings	$ 5,765

There was no other material impact on the consolidated financial statements relating to the adoption of these standards.

Accounting Changes

Effective January 1, 2007, the Trust adopted Section 1506 – "Accounting Changes" which prescribes the criteria for changing accounting policies as well as the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The adoption of this amended accounting standard did not impact the financial statements of the Trust.

CORPORATE GOVERNANCE

Vermilion is committed to a high standard of corporate governance practices, a dedication that begins at Board level and extends throughout the Trust. We believe good corporate governance is in the best interest of our unitholders, 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 Toronto Stock Exchange. In addition, the Board monitors and considers the implementation of corporate governance standards proposed by various regulatory and non-regulatory authorities in Canada. A full examination of our corporate governance policies will be provided in our Annual Information Circular, which will be filed on SEDAR (www.sedar.com) and mailed to all unitholders on April 2, 2008.

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 the Trust’s filings.

As of December 31, 2007 the Trust has evaluated the effectiveness of the design and operation of the Trust’s disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded and certified that the Trust’s disclosure controls and procedures are effective.

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

SARBANES OXLEY

On July 31, 2002, the United States Congress enacted the Sarbanes Oxley Act (“SOX”) that applies to all companies registered with the U.S. Securities and Exchange Commission. Section 404 of the SOX legislation “Internal Controls Over Financial Reporting” requires that management identify, document and assess internal controls and issue an opinion on the effectiveness of internal controls surrounding the financial reporting process.

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

The Trust’s Management, together with its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company’s system of internal control over financial reporting. Based on this evaluation, management concluded that the Trust’s system of internal control over financial reporting was effective as of December 31, 2007.

The Chief Executive Officer and Chief Financial Officer will file the required Certificates under Section 302 of SOX along with the Trust’s Form 40F report. The 40F filing will also include an audit opinion from Trust’s external auditors relating to the effectiveness of the Trust’s internal controls over financial reporting.

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 audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and have provided their report.

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

("Lorenzo Donadeo")

Lorenzo Donadeo
President & Chief Executive Officer
March 17, 2008

("Curtis Hicks")

Curtis W. Hicks
Executive Vice President & Chief Financial Officer

AUDITORS' REPORT

To the Unitholders of Vermilion Energy Trust:

We have audited the consolidated balance sheets of Vermilion Energy Trust (the "Trust") as at December 31, 2007 and 2006 and the consolidated statements of earnings, comprehensive income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

On March 17, 2008, we reported separately to the Board of Directors of Vermilion Resources Ltd. and to the Unitholders of Vermilion Energy Trust on our audits, conducted in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), of the consolidated financial statements for the same periods, prepared in accordance with Canadian generally accepted accounting principles, but which included Note 22, Differences Between Canadian and United States of America Generally Accepted Accounting Principles.

("Deloitte & Touche LLP")

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta
March 17, 2008

Consolidated Balance Sheets
December 31
(THOUSANDS OF CANADIAN DOLLARS)

	2007	2006
ASSETS		
Current		
Cash and cash equivalents (Note 19)	$ 47,868	$ 26,950
Accounts receivable	119,645	120,573
Crude oil inventory	11,033	4,898
Derivative instruments (Note 13)	37	1,624
Prepaid expenses and other (Note 3)	7,669	13,473
	186,252	167,518
Derivative instruments (Note 13)	9,515	4,656
Long-term investments (Notes 3, 4 and 16)	63,128	27,152
Goodwill	19,840	19,840
Reclamation fund (Notes 3 and 6)	57,928	56,357
Capital assets (Note 5)	1,331,460	1,187,316
	$1,668,123	$1,462,839
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 128,858	$ 139,672
Distributions payable to unitholders	12,794	11,000
Income taxes payable	1,518	13,419
Derivative instruments (Note 13)	7,450	-
	150,620	164,091
Long-term debt (Note 3 and 7)	452,490	358,236
Asset retirement obligation (Note 6)	163,374	127,494
Future income taxes (Notes 3 and 8)	205,702	224,631
	972,186	874,452
Non-controlling interest - exchangeable shares (Note 10)	68,576	51,780
UNITHOLDERS' EQUITY		
Unitholders' capital (Note 9)	380,941	321,035
Contributed surplus (Note 9)	29,211	30,513
Retained earnings	217,209	185,059
	627,361	536,607
	$1,668,123	$1,462,839

APPROVED BY THE BOARD

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

W. Kenneth Davidson, Director

Lorenzo Donadeo, Director

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

	2007	2006
REVENUE		
Petroleum and natural gas revenue	$ 707,334	$ 618,072
Royalties	(97,518)	(92,212)
	609,816	525,860
EXPENSES AND OTHER INCOME		
Operating	119,517	96,492
Transportation	22,926	10,504
Unit based compensation (Note 11)	13,985	24,383
Loss (gain) on derivative instruments (Note 13)	7,013	(349)
Interest	22,330	16,781
General and administration	18,726	15,839
Foreign exchange (gain) loss	(11,533)	12,997
Other income	(1,106)	(1,348)
Depletion, depreciation and accretion	211,397	162,254
	403,255	337,553
EARNINGS BEFORE INCOME TAXES AND OTHER ITEMS	206,561	188,307
INCOME TAXES (NOTE 8)		
Future	(9,325)	(16,349)
Current	34,033	42,876
	24,708	26,527
OTHER ITEMS		
Non-controlling interest - exchangeable shares (Note 10)	16,813	14,917
Loss (gain) related to equity method investment	754	(60)
	17,567	14,857
NET EARNINGS AND COMPREHENSIVE INCOME	164,286	146,923
Retained earnings, beginning of year	185,059	168,774
Cumulative effect of adoption of new accounting standards (Note 3)	5,765	-
Distributions declared	(136,389)	(130,638)
Unit-settled distributions on vested unit based awards (Note 9)	(1,512)	-
RETAINED EARNINGS, END OF YEAR	$ 217,209	$ 185,059
NET EARNINGS PER TRUST UNIT (NOTE 12)		
Basic	$ 2.48	$ 2.30
Diluted	$ 2.39	$ 2.22
WEIGHTED AVERAGE TRUST UNITS OUTSTANDING (NOTE 12)		
Basic	66,122,423	63,977,134
Diluted	75,782,723	73,059,877

Consolidated Statements of Cash Flows

Years Ended December 31

(THOUSANDS OF CANADIAN DOLLARS)

	2007	2006
OPERATING		
Net earnings	$ 164,286	$ 146,923
Adjustments:		
Depletion, depreciation and accretion	211,397	162,254
Change in unrealized gains and losses and amounts accrued relating to derivative contracts (Note 13)	4,178	(571)
Unit based compensation	13,985	24,383
Loss (gain) related to equity method investment	754	(60)
Unrealized foreign exchange (gain) loss	(16,226)	12,353
Non-controlling interest - exchangeable shares	16,813	14,917
Change in unrealized gains and losses and amounts realized relating to investments	49	(1,348)
Future income taxes	(9,325)	(16,349)
	385,911	342,502
Asset retirement costs incurred	(4,056)	(4,217)
Changes in non-cash operating working capital (Note 14)	(31,965)	(32,252)
Cash flows from operating activities	349,890	306,033
INVESTING		
Drilling and development of petroleum and natural gas properties	(175,639)	(136,939)
Acquisition of petroleum and natural gas properties (Note 4)	(121,294)	(26,435)
Long-term investment (Note 4)	(32,193)	(7,500)
Corporate acquisition, net of cash acquired (Note 4)	-	(124,604)
Purchase of derivative instrument (Note 13)	-	(4,926)
Contributions to reclamation fund	-	(9,553)
Changes in non-cash investing working capital (Note 14)	(4,512)	548
Cash flows used in investing activities	(333,638)	(309,409)
FINANCING		
Issue of trust units for cash	7,045	11,545
Cash distributions	(134,595)	(130,264)
Increase in long-term debt	99,053	87,137
Issue of trust units pursuant to distribution reinvestment plan	35,992	18,811
Changes in non-cash financing working capital (Note 14)	-	(1,531)
Cash flows from (used in) financing activities	7,495	(14,302)
Foreign exchange (loss) gain on cash held in foreign currencies	(2,829)	1,851
Net change in cash and cash equivalents	20,918	(15,827)
Cash and cash equivalents, beginning of year	26,950	42,777
Cash and cash equivalents, end of year	$ 47,868	$ 26,950
Supplementary information - cash payments		
Interest paid	$ 26,071	$ 20,320
Income taxes paid	$ 45,934	$ 47,523

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, former holders of common shares of the Company received units of the Trust, exchangeable shares of the Company or a combination thereof, in accordance with the elections made by such holders, as well as common shares of Clear. 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 interest 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, all of which are wholly owned, on a consolidated basis. Inter-company account balances and transactions are eliminated upon consolidation.

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

Petroleum and Natural Gas Operations
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 on producing and non-producing properties, overhead costs related to exploration and development and other carrying charges on unproven properties. Proceeds of disposition are applied against the cost pools with no gain or loss recognized except where the disposition results in a 20% or greater change in the rate of depletion and depreciation.

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

Annually, the carrying value of the Trust’s petroleum and natural gas properties is compared 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 assets to the estimated net present value of future cash flows from proved plus probable reserves. This calculation incorporates risks and uncertainties in the expected future cash flows which are discounted using a risk-free rate. Any excess carrying value above the net present value of the future cash flows would be recorded as a permanent impairment charged to earnings.

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

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

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

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

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

Long-Term Investments
Investments in which the Trust has significant influence are accounted for using the equity basis of accounting whereby the carrying value of the investment is increased or decreased for the Trust's percentage of net earnings or loss and reduced by dividends paid to the Trust. In 2007 and 2006 only the Trust's investment in Verenex Energy Inc. ("Verenex") was subject to the equity basis of accounting.

Long-term investments over which the Trust does not have significant influence are carried at fair value. Dividends received or receivable from the investments are included in the Trusts net earnings, with no adjustment to the carrying amount of the investment.

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

Revenue Recognition
Revenues associated with the sale of crude oil, natural gas and natural gas liquids are recorded when title passes to the customer. For Canadian natural gas production, legal title transfer occurs at the intersection of major pipelines (referred to as the "Hub") whereas the majority of Vermilion's Canadian oil production is sold at the well head. In Australia, oil is sold at the Wandoo B Platform, in the Netherlands natural gas is sold at the plant gate and in France oil is sold when delivered to the pipeline or when delivered to the refinery via tanker.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Financial Instruments

The Trust has elected to not designate any of its price risk management activities as accounting hedges and accounts for derivative financial instruments at fair value. 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 speculative purposes. The fair value of derivative financial instruments are recorded in the consolidated balance sheets with changes in fair value of derivative financial instruments recognized in earnings during the period.

Financial Instruments

Cash and cash equivalents are classified as held for trading and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. A gain or loss arising from a change in the fair value is recognized in net earnings in the current period.

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

Accounts payable and accrued liabilities, distributions payable to unitholders and long-term debt have been classified as other financial liabilities and are initially recognized at fair value. The carrying value approximates the fair value due to the short-term nature of these instruments. Transaction costs and discounts are now added to the fair value of long-term debt on initial recognition.

All derivative, debt and equity security investments not subject to consolidation or equity method accounting have been classified as held for trading and are measured at fair value. Accordingly, gains and losses are reflected in net income in the period in which they arise. Gains and losses associated with the Trust's investments in debt and equity securities are included in other income in the consolidated statement of earnings.

The fair values of derivative instruments, debt securities and equity securities are determined by reference to published prices in active markets.

Unit Compensation

The Trust has unit-based long-term compensation plans for directors, officers and employees of the Trust and its subsidiaries. Unit compensation expense is measured based on the fair value of the award at the date of grant. Unit compensation expense is deferred and recognized in earnings over the vesting period of the awards with a corresponding adjustment to contributed surplus.

Upon vesting or exercise, the amount previously recognized in contributed surplus together with any consideration paid is recorded as an increase in unitholders' capital. The Trust has not incorporated an estimated forfeiture rate for awards that will not vest, rather, the Trust accounts for forfeitures as they occur.

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 aggregate of the proceeds received from the exercise of "in the money" trust unit rights and the deemed proceeds related to unrecognized unit based compensation expense are used to repurchase units at the average market price during the period. Trust unit awards outstanding are converted at estimated performance factors.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Income Taxes
Future income taxes are calculated using the liability method whereby income tax liabilities and assets are recognized for the estimated tax consequences attributable to temporary differences between the amounts reported in the consolidated financial statements of the Trust and their respective tax bases using substantively enacted income tax rates in the respective jurisdictions that will be in effect when the differences are expected to reverse. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period in which the related legislation is substantively enacted.

The Trust is a taxable entity under the Income Tax Act (Canada) and currently is only taxable on income that is not distributed to the unitholders. In 2007, the Government of Canada passed legislation that effectively imposes a tax on distributions made by entities such as the Trust beginning in 2011. In 2006 and prior years, as the Trust allocated all of its Canadian taxable income to the unitholders in accordance with the Trust Indenture and met the requirements of the Income Tax Act (Canada) applicable to it, a provision for Canadian income tax expense was only recognized in the Canadian subsidiaries of the Trust. As a result of this new legislation, future income taxes related to temporary differences arising in the Trust which will reverse after 2010 are now recognized in earnings.

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

Exchangeable Shares - Non-controlling Interest
The exchangeable shares issued pursuant to the Plan of Arrangement were initially recorded at their pro-rata percentage of the carrying value of 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, or goodwill as appropriate.

3. NEW ACCOUNTING POLICIES

Financial Instruments
On January 1, 2007 the Trust adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 - "Comprehensive Income", Section 3855 - "Financial Instruments", Section 3861 - "Financial Instruments – Presentation and Disclosure" and Section 3865 - "Hedges". These standards require that entities categorize financial instruments and measure certain financial instruments at fair value. In addition, these standards introduce the concept of comprehensive income within Canadian GAAP and establish new guidance relating to hedge accounting.

As a result of adopting Section 3855, the Trust's investments in marketable securities are now measured at fair value whereas previously they were carried at cost. Gains and losses associated with these securities are reflected in net earnings in the period in which they arise. Transaction costs and discounts are now added to the fair value of long-term debt on initial recognition whereas previously these amounts were deferred and amortized using the straight-line method over the term of the debt. Unamortized amounts were included in prepaid expenses and other on the consolidated balance sheet. The Trust does not currently use hedge accounting and accordingly risk management related derivatives continue to be accounted for at fair value with the associated gains and losses reflected in net earnings. As the Trust does not have any other comprehensive income, net earnings equal comprehensive income.

3. NEW ACCOUNTING POLICIES (Continued)

In accordance with the transitional provisions, prior periods have not been restated as a result of adopting these standards. The cumulative effect of the adoption of these new standards had the following impact on the Trust's consolidated balance sheet as at January 1, 2007:

	Increase (Decrease)
Prepaid expenses and other	$ (2,431)
Long-term investments	$ 4,704
Reclamation fund	$ 2,436
Long-term debt	$ (2,431)
Future income taxes	$ 1,375
Retained earnings	$ 5,765

There was no other material impact on the consolidated financial statements relating to the adoption of these standards.

Accounting Changes

Effective January 1, 2007, the Trust adopted Section 1506 – "Accounting Changes" which prescribes the criteria for changing accounting policies as well as the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The adoption of this amended accounting standard did not impact the financial statements of the Trust.

4. INVESTMENTS AND ACQUISITIONS

a) Verenex

On December 21, 2006, Verenex completed a $33.2 million bought-deal financing in which Vermilion purchased 1,171,875 common shares at a price of $6.40 per share, representing 23% of the bought-deal financing. This reduced the Trust's equity interest in Verenex to 45% from 49%.

In July 2007, Vermilion purchased 2.1 million shares in Verenex for total consideration of $30 million as part of a $115 million bought-deal financing announced by Verenex.

In the fourth quarter of 2007, Vermilion purchased an additional 0.2 million shares in Verenex for total consideration of $2.2 million. After reflecting these additional shares, Vermilion owns 18.7 million shares representing 42.2% of the outstanding shares of Verenex.

b) Australia Acquisition

On June 20, 2007, the Trust acquired the remaining 40% interest in the Wandoo field in offshore Australia for cash consideration of $117.9 million. The purchase price allocation was determined as follows:

Capital assets	$ 138,596
Asset retirement obligation	(12,405)
Working capital	(8,311)
Total consideration	$ 117,880

4. INVESTMENTS AND ACQUISITIONS (Continued)

c) Esso Rep Acquisition

On July 10, 2006, the Trust, through its France subsidiary, acquired an 89.886% interest in Esso Rep, from Esso SAF, a subsidiary of Exxon Mobil Corporation. On July 12, 2006, the Trust acquired the remaining 10.114% interest in Esso Rep from another party. The acquisition has been accounted for using the purchase method of accounting and as no significant transactions occurred affecting the results of operations or the fair value of assets acquired and liabilities assumed during the two day period between the two purchase events, the allocation of the purchase price was determined as at July 10, 2006. Results of operations are included in the consolidated results from that date. The aggregate purchase price, exclusive of the acquired working capital deficiency, was $126.6 million consisting of cash of $123.1 million and a current payable of $3.5 million. Subsequent to the date of acquisition, Esso Rep was renamed Vermilion Emeraude Rep SAS. The purchase price allocation was determined as follows:

Capital assets	$ 256,320
Asset retirement obligation	(20,636)
Future income taxes	(66,239)
Cash	1,996
Working capital, excluding cash	(44,841)
Total consideration	$ 126,600

5. CAPITAL ASSETS

2007	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 2,186,091	$ 858,180	$ 1,327,911
Furniture and equipment	10,835	7,286	3,549
	$ 2,196,926	$ 865,466	$ 1,331,460

2006	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 1,841,854	$ 657,988	$ 1,183,866
Furniture and equipment	9,598	6,148	3,450
	$ 1,851,452	$ 664,136	$ 1,187,316

As at December 31, 2007 and 2006 there were no costs to exclude for undeveloped properties from the depletion and depreciation calculation. During the year, the Trust capitalized $2.1 million (2006 - $0.4 million) of overhead costs related to exploration and development activities.

The Trust performed calculations at December 31, 2007 and 2006 to assess whether the carrying value of petroleum and natural gas properties and equipment is recoverable. Based on the calculations, the undiscounted future cash flows from the Trust's proved reserves exceeded the carrying values of the Trust's petroleum and natural gas properties and equipment at December 31, 2007 and 2006 and therefore the carrying values are considered recoverable.

The benchmark prices used in the December 31, 2007 calculation are as follows:

CDN$/BOE	Canada	France	Netherlands	Australia
2008	$54.32	$80.38	$57.00	$91.00
2009	$56.94	$77.01	$58.59	$87.00
2010	$55.84	$73.52	$55.94	$80.50
2011	$55.15	$71.61	$53.96	$78.50
2012	$54.86	$71.47	$53.31	$78.50
Average increase thereafter	2.0%	1.5%	1.0%	1.0%

6. ASSET RETIREMENT OBLIGATION AND RECLAMATION FUND

The total asset retirement obligation was determined based on the estimated future costs and timing to reclaim the Trust's net interest in all wells and facilities. The Trust has estimated the net present value of its asset retirement obligations to be $163.4 million as at December 31, 2007 (2006 - $127.5 million) based on a total undiscounted future liability after inflation adjustment of $579.4 million (2006 - $502.0 million). These payments are expected to be made over the next 48 years with most coming within the time frame of 15-37 years. The Trust used a credit adjusted risk free rate of 8% and inflation rates between 1.5% and 2.0% to calculate the present value of the asset retirement obligation.

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

	2007	2006
Carrying amount, beginning of period	$ 127,494	$ 70,214
Increase in liabilities in the period	12,936	21,297
Disposition of liabilities in the period	(4,055)	(4,217)
Change in estimate	27,240	24,946
Accretion expense	10,067	7,380
Foreign exchange	(10,308)	7,874
Carrying amount, end of period	$ 163,374	$ 127,494

The Trust has set aside funds for the future payment of its estimated asset retirement obligations. In 2007, the Trust contributed nil to the reclamation fund (2006 - $9.6 million). Reclamation fund assets are comprised of cash, debt securities and equity securities which are carried at fair value.

The following table reconciles the change in the Trust's reclamation fund investments:

	2007	2006
Cash and short term investments, at fair value and cost (cost approximates fair value)	$ 10,838	$ 30,685
Equity securities, at cost (fair value 2006 - $10.7 million)	-	8,214
Equity and debt securities, at fair value	47,090	-
Debt securities at amortized cost (fair value 2006 - $17.4 million)	-	17,458
	$ 57,928	$ 56,357

A portion of the cash and short term investments as well as all of the equity securities and debt securities which comprise the reclamation fund are professionally managed by third parties.

7. LONG-TERM DEBT

As at December 31, 2007, the Trust had an unsecured covenant - based credit facility consisting of a revolving term loan in the amount of $625 million. The revolving period under the term loan is expected to expire in June 2008 and may be extended for an additional period of up to 364 days at the option of the lenders. If the lenders convert the revolving credit facility to a non-revolving credit facility, the amounts outstanding under the facility become repayable 24 months after the end of the revolving period. Various borrowing options are available under the facility including prime rate based advances and bankers' acceptance loans.

8. INCOME TAXES

The net future income tax liability at December 31, 2007 and 2006 is comprised of the following:

	2007	2006
Future income tax liabilities:		
Capital assets	$ (232,283)	$ (250,282)
Derivative contracts	(1,086)	(2,095)
Partnership income deferral	(7,240)	(5,069)
Asset retirement obligation	(5,445)	-
Future income tax assets:		
Non-capital losses	38,909	22,920
Asset retirement obligation	-	8,689
Basis difference of investments	61	1,176
Share issue costs	129	30
Other	392	-
Unrealized foreign exchange	861	-
Net future income tax (liability)	$ (205,702)	$ (224,631)

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 32.12% (2006 – 34.50%), as follows:

	2007	2006
Earnings before income taxes and non-controlling interest	$ 205,807	$ 188,367
Canadian corporate tax rate	32.12%	34.50%
Expected tax expense	66,105	64,987
Increase (decrease) in taxes resulting from:		
Income attributable to the unitholders	(43,808)	(45,069)
Non-deductible Crown payments	123	4,071
Resource allowance	-	(2,863)
Foreign tax rate differentials*	1,528	(8,563)
Statutory rate changes	70	(9,490)
Capital taxes	-	(179)
Unit compensation expense	4,492	8,539
Amended returns and pool estimate variances	8,830	4,653
Foreign exchange	(8,018)	10,064
Other	(703)	377
One-time tax benefit associated with offshore drilling program	(8,929)	-
Adjustment to provisions for tax positions taken	5,213	-
Non-taxable portion of capital gains	(195)	-
Provision for income taxes	$ 24,708	$ 26,527

* The corporate tax rate in France is 34.4%, 45.3% in the Netherlands and 30% in Australia

In 2007, the Government of Canada passed legislation that effectively imposes a tax on distributions made by entities such as the Trust beginning in 2011. As a result of this legislation, future income taxes related to temporary differences arising in the Trust, which will reverse after 2010, are now recognized in earnings. The related impact on the Trust's consolidated future income tax provision and future income tax liability related to this legislation was not material.

9. UNITHOLDERS' CAPITAL AND CONTRIBUTED SURPLUS

The Trust is authorized to issue an unlimited number of units of the Trust.

The Trust established a Distribution Reinvestment Plan ("DRIP") to provide the option for unitholders to reinvest cash distributions into additional trust units issued from treasury. In 2007, the Trust issued 1.1 million units for proceeds of $36.0 million (2006 – 0.6 million units for proceeds of $18.8 million).

	Number of Units	Amount
Trust Units		
Unlimited number of trust units authorized to be issued		
Balance as at December 31, 2005	62,508,214	274,813
Distribution reinvestment plan	609,907	18,811
Issued on conversion of exchangeable shares	225,132	7,430
Unit rights exercised and issuance of units on vesting of trust unit award plan grants	1,350,541	11,116
Transfer from contributed surplus for unit based awards	-	8,436
Trust units issued for bonus plan	14,400	429
Balance as at December 31, 2006	64,708,194	$ 321,035
Distribution reinvestment plan	1,082,868	35,992
Issued on conversion of exchangeable shares	2,143	70
Unit rights exercised and issuance of units on vesting of trust unit award plan grants	1,477,278	7,045
Transfer from contributed surplus for unit based awards	-	14,592
Trust units issued for bonus plan	23,039	695
Unit-settled distributions on vested unit based awards	41,905	1,512
Balance as at December 31, 2007	67,335,427	380,941

	2007	2006
Contributed Surplus		
Opening balance	$ 30,513	$ 14,566
Unit compensation expense	13,290	24,383
Transfer to unitholders' capital for unit based awards	(14,592)	(8,436)
Ending balance	$ 29,211	$ 30,513

Cash distributions declared to unitholders for the year ended December 31, 2007 were $136.4 (2006 - $130.6). Cash distributions are determined by the Board of Directors in accordance with the Trust Indenture and are paid monthly.

10. NON-CONTROLLING INTEREST – EXCHANGEABLE SHARES

Upon conversion to a Trust, 6.0 million exchangeable shares of the Company were issued. The exchangeable shares are mandatorily converted into trust units upon redemption by the shareholder. 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 conversion of exchangeable shares occurs based on the exchange ratio which is adjusted monthly to reflect the distributions paid on trust units. Cash distributions are not paid on exchangeable shares.

The non-controlling interest on the consolidated balance sheets 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.

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

	2007	2006
Exchangeable shares		
Opening number of exchangeable shares	4,458,919	4,619,335
Exchanged for trust units	(1,446)	(160,416)
Ending balance	4,457,473	4,458,919
Ending exchange ratio	1.55595	1.46741
Trust units issuable upon conversion	6,935,605	6,543,062

Following is a summary of the non-controlling interest:

	2007	2006
Non-controlling interest, beginning of year	$ 51,780	$ 38,760
Reduction of book value for conversion to trust units	(17)	(1,897)
Current period net earnings attributable to non-controlling interest	16,813	14,917
Non-controlling interest, end of year	$ 68,576	$ 51,780

11. UNIT COMPENSATION PLANS

Unit Rights Incentive Plan

The Trust has a unit rights incentive plan that allows the Trust to issue rights to acquire trust units to directors, officers and employees. No future rights are expected to be issued as the unit rights incentive plan was replaced with a Trust Unit Award Plan in 2005. The existing rights plan will be in place until all issued and outstanding rights are exercised or cancelled.

Under the plan, 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 were equal to the market price for the trust units on the date the unit rights were issued. Under certain conditions, the exercise price per unit may be adjusted 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 used the Black-Scholes option-pricing model to calculate the estimated fair value of the outstanding rights. For unit rights issued in 2005, the following assumptions were used to arrive at the estimate of fair value:

	2005
Expected volatility	22.33%
Risk-free interest rate	4.0%
Expected life of option (years)	5.0
Fair value per option	$ 5.28

The dividend yield is offset by the reducing strike price feature of the plan resulting in the use of a zero dividend yield in the option-pricing model. During the year, $1.1 million of the fair value has been recorded as compensation expense (2006 - $2.6 million).

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

	2007		2006	
	Number of Unit Rights	Grant Date Weighted Average Exercise Price	Number of Unit Rights	Grant Date Weighted Average Exercise Price
Opening Balance	2,244,258	$ 14.12	3,617,750	$ 13.81
Granted	-	-	-	-
Cancelled	(3,900)	21.55	(177,800)	17.85
Exercised	(1,091,742)	13.63	(1,195,692)	12.63
Closing balance	1,148,616	$ 14.55	2,244,258	$ 14.12

11. UNIT COMPENSATION PLANS (Continued)

A summary of the plan as at December 31, 2007 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	$1.40	559,400	0.08	559,400
$11.46 - $15.00	$1.58 - $5.12	102,400	0.38	102,400
$15.01 - $19.56	$6.83 - $11.38	486,816	1.67	468,149

Trust Unit Award Incentive Plan
In 2005, the Board of Directors established the Trust Unit Award Incentive Plan governing the issuance of unvested units of the Trust to directors, officers, employees and consultants of the Trust and its Affiliates.

Upon vesting, the grantee receives unrestricted units of the Trust, adjusted for cumulative distributions during the vesting period. The number of units issued upon vesting is dependent upon the performance of the Trust compared to its peers based on a performance factor that may range from zero to two times the number of awards originally granted. In general, awards granted vest annually.

The fair value of awards is estimated at the date of grant and is recognized over the vesting period.

The following table summarizes information about the Trust Unit Award Incentive Plan:

	Number of Awards
Balance December 31, 2006	967,800
Granted	441,310
Vested	(193,575)
Cancelled	(113,040)
Balance December 31, 2007	1,102,495

Compensation expense of $12.1 million was recorded during the year ended December 31, 2007 (2006 - $21.8 million) related to the Trust Unit Award Incentive Plan.

Phantom Award Incentive Plan
In September 2006, the Board of Directors approved a new long-term incentive plan for certain employees not eligible to participate in the Trust Unit Award Incentive Plan which provides for cash payments based on the market value of a trust unit. The cash consideration paid upon vesting is dependent upon the future performance of the Trust compared to its peers based on a performance factor that may range from zero to two times the number of notional units originally granted.

Compensation expense recognized is based on the closing market price of a trust unit and is remeasured at each reporting date. The total expense is amortized over the relevant vesting periods and the amount payable is recorded as a liability until settlement.

Compensation expense of $2.0 million has been recorded as general and administration expense during the year ended December 31, 2007 (2006 - $1.2 million).

12. PER-UNIT AMOUNTS

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

	2007	2006
Net earnings	$ 164,286	$ 146,923
Non-controlling interest – exchangeable shares	16,813	14,917
Net earnings for diluted net earnings per trust unit calculation	$ 181,099	$ 161,840
Weighted average trust units outstanding	66,122,423	63,977,134
Trust units issuable on conversion of exchangeable shares	6,935,786	6,585,887
Dilutive impact of unit rights incentive and trust unit award plans	2,724,514	2,496,856
Diluted weighted average trust units outstanding	75,782,723	73,059,877

Basic net earnings per trust unit has been calculated based on net earnings divided by the basic weighted average trust units outstanding. Earnings attributable to the non-controlling interest related to the exchangeable shares are added back to net earnings in calculating diluted net earnings per trust unit. All outstanding unit rights were dilutive and therefore have been included in the calculation of the diluted trust units for all periods presented.

13. DERIVATIVE INSTRUMENTS

Risk Management Activities

The nature of the Trust's operations results 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 does not obtain collateral or other security to support its collars as the majority of these instruments are with the Trust's banking syndicate.

Risk Management: Oil	Funded Cost	bbls/d	US$/bbl
Collar – WTI			
Q1 2008	US$0.50/bbl	500	$63.00 - $79.05
Q2 2008	US$0.50/bbl	500	$64.30 - $76.00
Q3 2008	US$0.28/bbl	250	$70.00 - $90.00
Q4 2008	US$0.50/bbl	250	$69.00 - $90.00
Collar - BRENT			
Q1 2008	US$0.25/bbl	500	$68.42 - $83.00
Q1 2008	US$0.25/bbl	500	$69.25 - $82.00
Q2 2008	US$0.50/bbl	500	$64.00 - $80.10
Q2 2008	US$0.25/bbl	500	$67.20 - $82.00
Q3 2008	US$0.25/bbl	500	$66.40 - $82.00
Q3 2008	US$0.25/bbl	500	$66.60 - $82.00
Q3 2008	US$0.19/bbl	250	$65.00 - $90.00
Q4 2008	-	500	$68.20 - $81.00
Call Spread - BRENT			
2009 - 2011	US$5.73/bbl	700	$65.00 - $85.00

The fair values of derivative instruments are recorded on the consolidated balance sheets 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.

13. DERIVATIVE INSTRUMENTS (Continued)

The following table reconciles the change in the unrealized amounts related to the fair value of derivative contracts:

		2007		2006
Fair value of contracts, beginning of period	$	6,280	$	783
Opening unrealized (gain) on contracts settled during the period		(1,624)		(783)
Realized (loss) on contracts settled during the period		(2,835)		(222)
Unrealized gain (loss) during the period on contracts outstanding at the end of the period		(2,554)		1,354
Purchase of derivative contracts at fair value		-		4,926
Net payment to counterparties under contract settlements during the period		2,835		222
Fair value of contracts, end of period		2,102		6,280
Comprised of:				
Current derivative asset		37		1,624
Current derivative liability		(7,450)		-
Non-current derivative asset		9,515		4,656
	$	2,102	$	6,280

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

		2007		2006
Realized loss on contracts settled during the period	$	2,835	$	222
Opening unrealized gain on contracts settled during the period		1,624		783
Unrealized (gain) loss during the period on contracts outstanding at the end of the period		2,554		(1,354)
Loss (gain) on derivative instruments for the period	$	7,013	$	(349)

Pursuant to an acquisition under which the vendor participates in a portion of the net price received by Vermilion from 2009 to 2011 inclusive, the Trust entered into a derivative transaction to economically offset a portion of the related potential future payments.

The transaction consisted of three dated Brent crude purchased call options at US$65.00 per barrel and three dated Brent crude written call options at US$85.00 per barrel representing approximately one half of the expected production subject to the related provision. The total cost of this derivative transaction was $4.9 million.

The Trust has determined that any potential future payments under this provision would constitute additional consideration. As the outcome of this provision could not be determined beyond a reasonable doubt and as the amount of the potential contingent consideration could not be reasonably estimated, no amount related to this provision was recognized as part of the purchase price at the date of acquisition. If payments are made under this provision in future periods or if additional information becomes available that allows the Trust to determine the outcome of this provision beyond a reasonable doubt and reasonably estimate the amount of contingent consideration that will be paid, the Trust will recognize an adjustment to the purchase price on a prospective basis.

During the normal course of business, the Trust enters into fixed and collared price arrangements to sell a portion of its production. The Trust has elected to exempt these contracts from fair value accounting through the use of the normal purchase and sales exemption.

14. CASH FLOW INFORMATION

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

	2007	2006
Accounts receivable	$ 3,972	$ 10,497
Crude oil inventory	(2,863)	18,571
Prepaid expenses and other	1,606	(4,085)
Accounts payable and accrued liabilities	(37,943)	(62,399)
Foreign exchange	(1,249)	4,181
Changes in non-cash working capital	$ (36,477)	$ (33,235)

15. SEGMENTED INFORMATION

The Trust has operations principally in Canada, France, the Netherlands and Australia. The Trust's entire operating activities are related to exploration, development and production of petroleum and natural gas.

	2007	2006
Petroleum and natural gas revenue		
Canada	$ 225,501	$ 208,306
France	240,547	201,650
Netherlands	77,367	92,592
Australia	163,919	115,524
	$ 707,334	$ 618,072
Net earnings		
Canada	$ 9,920	$ 26,658
France	84,712	60,079
Netherlands	16,286	29,660
Australia	53,368	30,526
	$ 164,286	$ 146,923
Capital expenditures		
Canada	$ 69,713	$ 111,216
France	73,504	164,523
Netherlands	22,275	3,673
Australia	131,441	8,566
	$ 296,933	$ 287,978
Total assets		
Canada	$ 662,904	$ 627,147
France	604,090	542,074
Netherlands	150,533	148,710
Australia	250,596	144,908
	$ 1,668,123	$ 1,462,839

16. LONG-TERM INVESTMENTS

The following table reconciles the Trust's total long-term investments:

	2007	2006
Portfolio investments, at fair value	$ 5,032	$ -
Portfolio investments, at cost (fair value 2006 - $5.2 million)	-	496
Investment in Verenex, equity method (fair value - $158.8 million, 2006 - $109.6 - million)	58,096	26,656
	$ 63,128	$ 27,152

17. RELATED PARTY TRANSACTIONS

During the period, Vermilion initially paid for various expenditures on behalf of Verenex and then recovered such amounts from 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.

18. COMMITMENTS

The Trust has various commitments associated with its business operations, none of which, in managements view, are significant.

19. COMPONENTS OF CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows:

	2007	2006
Monies on deposit with banks	$ 44,588	$ 26,039
Guaranteed short-term investments	3,280	911
Total cash and cash equivalents	$ 47,868	$ 26,950

20. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2006 the CICA issued Section 1535 - “Capital Disclosures” which establishes disclosure standards about an entity’s capital structure and how it is managed. Section 3862 - “Financial Instruments – Disclosures” and Section 3863 - “Financial Instruments – Presentation” were also issued in December 2006 and establish standards for the presentation of financial instruments and non-financial derivatives and require additional disclosure to enable users to evaluate the significance and risks relating to financial instruments on an entity’s financial position. These three sections are effective for fiscal years beginning on or after October 1, 2007. The Trust does not anticipate that the adoption of these standards will have an impact on its results of operations and financial position.

In June 2007, the CICA issued Section 3031 - “Inventories.” This section enhances the guidance relating to the determination of inventory cost and effectively harmonizes the Canadian standard with the International Financial Reporting Standards equivalent. This section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The Trust does not anticipate that the adoption of this standard will have a material impact on its results of operations and financial position.

In June 2007, the CICA amended Section 1400 - “General Standards of Financial Statement Presentation”, to require an assessment and potential disclosure of an entity’s ability to continue as a going concern. The new requirements are effective for interim and annual periods beginning on or after January 1, 2008. These amendments will not impact the Trust’s consolidated financial statements.

On February 13, 2008, the Accounting Standards Board (“AcSB”) confirmed that the transition date to International Financial Reporting Standards (“IFRS”) from Canadian GAAP will be January 1, 2011 for publically accountable enterprises.

In February 2008, the CICA issued Section 3064 – “Goodwill and Intangible Assets” to replace Sections 3062 – “Goodwill and Other Intangible Assets” and 3450 – “Research and Development Costs”. Section 3064 incorporates guidance addressing when an internally developed intangible asset meets the criteria for recognition as an asset. This Section is effective for fiscal years beginning on or after October 1, 2008. The Trust does not anticipate that the adoption of this standard will have a material impact on its results of operations and financial position.

21. SUBSEQUENT EVENTS

On January 31, 2008 the Trust completed an acquisition of gas producing assets and gross-overriding royalties on oil producing properties for cash consideration before final adjustments of approximately $47 million. The purchase price allocation relating to this acquisition has not yet been finalized.

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

The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), which differ in some respects from GAAP in the United States. The significant differences in GAAP as applicable to these consolidated financial statements and notes are described in the Trust's Form 40F, which is filed with the United States of America Securities and Exchange Commission.

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TRUST INFORMATION

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Chairman & CEO, Point Energy Ltd.
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Lorenzo Donadeo
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Claudio A. Ghersinich
Executive Director, Carrera Investments Corp.
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Joseph F. Killi [2, 3]
Chairman,
Parkbridge Lifestyle Communities Inc.
Vice Chairman, Realex Properties Corp.
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William F. Madison [2, 4, 5]
Sugar Land, Texas

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
Friday, May 2, 2008, 10:00 a.m.
The Grand Lecture Theatre
Metropolitan Centre
333 – 4th Avenue S.W.
Calgary, Alberta

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President & Chief Executive Officer

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

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

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

Keith D. Hartman, P.Eng.
Vice President Exploitation

Raj C. Patel, P.Eng.
Vice President Marketing

Paul L. Beique
Director Investor Relations

Daniel Goulet, P.Eng.
Director Production and Operations

Cheryl M. Kinzie
Director Human Resources & Administration

Charles W. Berard, B.Eng., L.LL., LL.B.
Partner, Macleod Dixon LLP
Corporate Secretary

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Peter Sider, P.Eng.
Regional General Manager, European Operations
Vermilion REP SAS

NETHERLANDS
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General Manager
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TRANSFER AGENT
Computershare Trust Company of Canada

STOCK EXCHANGE LISTING
The Toronto Stock Exchange
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