

**VERMILION**  
**ENERGY TRUST**



**RENEWAL ANNUAL INFORMATION FORM**  
**for the year ended December 31, 2003**

April 20, 2004

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## GLOSSARY OF TERMS

The following are defined terms used in this Annual Information Form:

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

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

"**Arrangement**" means the plan of arrangement under the ABCA involving the trust, Vermilion, Clear energy Inc. and Vermilion acquisition Ltd.

"**Aventura**" means Aventura Energy Inc., a corporation incorporated pursuant to the ABCA;

"**Aventura Shares**" means the common shares of Aventura;

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

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

"**Current Market Price of a Trust Unit**" means, in respect of a Trust Unit on any date, the weighted average trading price of the Trust Units on the TSX on that date and the nine trading days preceding that date, or, if the Trust Units are not then listed on the TSX, on such other stock exchange or automated quotation system on which the Trust Units are listed or quoted, as the case may be, as may be selected by the board of directors of Vermilion for such purpose; provided, however, that if in the opinion of the board of directors of Vermilion the public distribution or trading activity of Trust Units for that period does not result in a weighted average trading price which reflects the fair market value of a Trust Unit, then the Current Market Price of a Trust Unit shall be determined by the board of directors of Vermilion, in good faith and in its sole discretion, and provided further that any such selection, opinion or determination by such board of directors shall be conclusive and binding and for the purposes of this definition, the weighted average trading price shall be determined by dividing (a) the aggregate dollar trading value of all Trust Units sold on the TSX (or other stock exchange or automated quotation system, if applicable) over the applicable ten trading days by (b) the total number of Trust Units sold on such stock exchange or system during such period;

"**Distributable Cash**" means all amounts available for distribution during any applicable period to holders of Trust Units;

"**Distribution**" means a distribution paid by the Trust in respect of the Trust Units, expressed as an amount per Trust Unit;

"**Distribution Payment Date**" means any date that Distributable Cash is distributed to Unitholders, generally being the 15th day of the calendar month following any Distribution Record Date;

"**Distribution Record Date**" means the last day of each calendar month or such other date as may be determined from time to time by the Trustee, except that December 31 shall in all cases be a Distribution Record Date;

"**DRIP Plan**" means the Distribution Reinvestment and Optional Trust Unit Purchase Plan adopted by the Trust;

"**Exchangeable Shares**" means the Series A exchangeable shares in the capital of Vermilion;

"**Exchangeable Share Provisions**" means the rights, privileges, restrictions and conditions attaching to the Exchangeable Shares;

**"Exchange Ratio"** means the exchange ratio used to determine the number of Trust Units a holder of Exchangeable Shares is entitled to receive upon an exchange of Exchangeable Shares which, in respect of each Exchangeable Share, was initially equal to one upon completion of the Arrangement, and shall be cumulatively adjusted thereafter by: (a) increasing the Exchange Ratio on each Distribution Payment Date by an amount, rounded to the nearest five (5) decimal places, equal to a fraction having as its numerator the product of the Exchange Ratio immediately prior to the applicable Distribution Payment Date and the Distribution, expressed as an amount per Trust Unit, paid on that Distribution Payment Date, and having as its denominator the Current Market Price of a Trust Unit on the last business day prior to that Distribution Payment Date; and (b) decreasing the Exchange Ratio on each record date for the payment of dividends to holders of Exchangeable Shares by Vermilion, if any, by an amount, rounded to the nearest five (5) decimal places, equal to a fraction having as its numerator the amount of the dividend payable to holders of Exchangeable Shares, expressed as an amount per Exchangeable Share, and having as its denominator the Current Market Price of a Trust Unit on the date that is the last business day prior to that dividend record date. The Exchange Ratio shall also be adjusted in the event of certain other reorganizations or distributions in respect of the Trust Units as necessary on an economic equivalency basis as further described in the Exchangeable Share Provisions;

**"GLJ"** means Gilbert Laustsen Jung Associates Ltd., independent petroleum engineering consultants of Calgary, Alberta;

**"GLJ Report"** means the independent engineering evaluation of certain oil, NGL and natural gas interests of the Trust and Aventura prepared by GLJ dated April 20, 2004 and effective January 1, 2004.

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

**"Insolvency Event"** means the institution by Vermilion of any proceeding to be adjudicated to be a bankrupt or insolvent or to be wound up, or the consent of Vermilion to the institution of bankruptcy, dissolution, insolvency or winding-up proceedings against it, or the filing of a petition, answer or consent seeking dissolution or winding-up under any bankruptcy, insolvency or analogous laws, including without limitation the *Companies Creditors' Arrangement Act* (Canada) and the *Bankruptcy and Insolvency Act* (Canada), and the failure by Vermilion to contest in good faith any such proceedings commenced in respect of Vermilion within fifteen (15) days of becoming aware thereof, or the consent by Vermilion to the filing of any such petition or to the appointment of a receiver, or the making by Vermilion of a general assignment for the benefit of creditors, or the admission in writing by Vermilion of its inability to pay its debts generally as they become due, or Vermilion not being permitted, pursuant to solvency requirements of applicable law, to redeem any retracted Exchangeable Shares pursuant to the Exchangeable Share Provisions;

**"Non-Resident"** means (a) a Person who is not a resident of Canada for the purposes of the Tax Act; or (b) a partnership that is not a Canadian partnership for the purposes of the Tax Act;

**"Notes"** means the unsecured, subordinated notes issued by Vermilion under the Arrangement;

**"Partnership"** means Vermilion Resources, the partners of which are Vermilion and its wholly-owned subsidiary, 764031 Alberta Ltd.;

**"Permitted Investments"** means (a) obligations issued or guaranteed by the government of Canada or any province of Canada or any agency or instrumentality thereof, (b) term deposits, guaranteed investment certificates, certificates of deposit or bankers' acceptances of or guaranteed by any Canadian chartered bank or other financial institutions the short-term debt or deposits of which have been rated at least A or the equivalent by Standard & Poor's Corporation, Moody's Investors Service, Inc. or Dominion Bond Rating Service Limited, and (c) commercial paper rated at least A or the equivalent by Dominion Bond Rating Service Limited, in each case maturing within 180 days after the date of acquisition;

**"Pro Rata Share"** of any particular amount in respect of a Unitholder at any time shall be the product obtained by multiplying the number of Trust Units that are owned by that Unitholder at that time by the quotient obtained when such a number is divided by the total number of all Trust Units that are issued and outstanding at that time;

**"Royalty"** means the royalty granted under the Royalty Agreement commencing February 1, 2003, entitling the Trust to approximately 99% of the net cash flow generated from the present and future oil and natural gas interests, rights and related tangibles of the Partnership after certain costs, expenditures and deductions;

**"Royalty Agreement"** means the royalty agreement between the Partnership, Vermilion, 764031 Alberta Ltd. and the Trust dated January 22, 2003 providing for the creation of the Royalty;

**"Special Voting Right"** means the special voting right of the Trust, issued and certified under the Trust Indenture for the time being outstanding and entitled to the benefits and subject to the limitations set forth therein;

**"Subsequent Investment"** means those investments which the Trust is permitted to make pursuant to the Trust Indenture;

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

**"Support Agreement"** means the support agreement entered into between the Trust and Vermilion Acquisition Ltd. (prior to its amalgamation with Vermilion) on January 16, 2003;

**"Trust"** means Vermilion Energy Trust, a trust established under the laws of Alberta pursuant to the Trust Indenture;

**"Trustee"** means Computershare Trust Company of Canada, the initial trustee of the Trust, or such other trustee, from time to time, of the Trust;

**"Trust Indenture"** means the amended and restated trust indenture dated as of January 15, 2003 between Computershare Trust Company of Canada and Vermilion;

**"Trust Subsidiary"** means Vermilion Resources Ltd., 764031 Alberta Ltd., Vermilion Rep S.A., Vermilion Resources (Partnership), Aventura Energy Inc.

**"Trust Unit"** or **"Unit"** means a unit of the Trust issued by the Trust;

**"TSX"** means TSX Inc., carrying on business as the Toronto Stock Exchange;

**"Unitholder Rights Plan"** means the trust unitholder rights plan adopted by the Trust pursuant to the Unitholders Rights Plan Agreement;

**"Unitholder Rights Plan Agreement"** means the trust unitholder rights plan agreement between the Trust and Computershare Trust Company of Canada dated January 16, 2003 to establish the Unitholder Rights Plan;

**"Unitholders"** means holders from time to time of the Trust Units;

**"Unit Rights Incentive Plan"** means the Unit Rights Incentive Plan of the Trust;

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

**"Voting and Exchange Agreement Trustee"** means Computershare Trust Company of Canada, the initial trustee under the Voting and Exchange Trust Agreement, or such other trustee, from time to time appointed thereunder; and

**"Voting and Exchange Trust Agreement"** means the voting and exchange trust agreement entered into on January 16, 2003 between the Trust, Vermilion Acquisition Ltd. (prior to its amalgamation with Vermilion) and the Voting and Exchange Agreement Trustee.

### Conventions

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

### Abbreviations

<i>Oil and Natural Gas Liquids</i>		<i>Natural Gas</i>	
Bbl	Barrel	Mcf	thousand cubic feet
Bbls	Barrels	Mmcf	million cubic feet
Mbbls	thousand barrels	Bcf	billion cubic feet
Bbls/d	barrels per day	Mcf/d	thousand cubic feet per day
NGLs	natural gas liquids	Mmcf/d	million cubic feet per day
GJ	Gigajoule	MMBTU	million British Thermal Units
GJ/d	gigajoule per day		

### Other

AECO-C	Intra-Alberta Nova Inventory Transfer Price (NIT net price)
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28 °API or higher is generally referred to as light crude oil
ARTC	Alberta Royalty Tax Credit
BOE	barrel of oil equivalent of natural gas and crude oil on the basis of 1 BOE for 6 (unless otherwise stated) Mcf of natural gas (this conversion factor is an industry accepted norm and is not based on either energy content or current prices)
BOE/D	barrel of oil equivalent per day
m <sup>3</sup>	cubic metres
MBOE	1,000 barrels of oil equivalent
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade
MW/h	Megawatts per hour

## Conversion

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

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

## SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This annual information form contains forward-looking statements. All statements other than statements of historical fact contained in this annual information form are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, proposed acquisition, budgets, litigation, projected costs and plans and objectives of or involving the Trust or Vermilion. Many of these statements can be identified by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words. The Trust and Vermilion believe the expectations reflected in such forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included, or incorporated by reference, in this annual information form should not be unduly relied upon. A discussion of the risk factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein is included in this annual information form under "Risk Factors".

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. Such forward-looking statements are made as of the date of this annual information form and neither the Trust nor Vermilion undertakes any obligation to publicly update or revise such forward-looking statements to reflect new information, subsequent events or otherwise.

## VERMILION ENERGY TRUST

### General

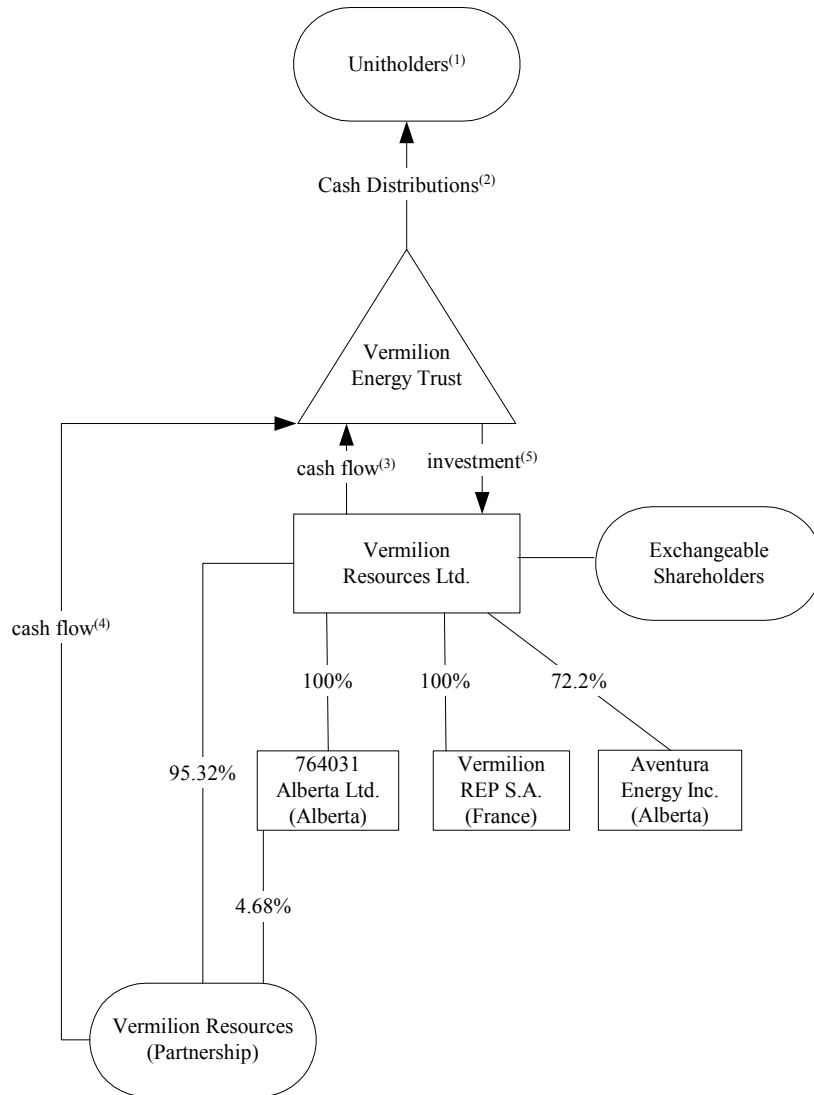
Vermilion Energy Trust is an open-end unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to the Trust Indenture. The head and principal office of the Trust is located at Suite 2800, 400 - 4<sup>th</sup> Avenue, S.W., Calgary, Alberta, T2P 0J4.

The Trust was formed on December 16, 2002 pursuant to the Trust Indenture, as amended and restated on January 15, 2003. As a result of the the Arrangement, former holders of common shares of Vermilion received Units or Exchangeable Shares, or a combination thereof, in accordance with the elections made by such holders, and Vermilion become a subsidiary of the Trust. See "General Development of the Business of the Trust and Vermilion – Significant Acquisitions and Significant Dispositions - The Arrangement".



## Organizational Structure of the Trust

The following diagram describes the intercorporate relationships among the Trust and its subsidiaries as at December 31, 2003, the percentage of votes attaching to all voting securities of each subsidiary beneficially owned by Vermilion, as well as the flow of cash from the oil and gas properties held by such subsidiaries to the Trust, and from the Trust to the Unitholders. Reference should be made to the appropriate sections of this annual information form for a complete description of the structure of the Trust.



### Notes:

- (1) The Unitholders own 100% of the equity of the Trust.
- (2) Cash distributions are made to Unitholders monthly based on the Trust's cash flow.
- (3) Cash flow represents payments made by Vermilion to the Trust in respect of principal and interest payments on the Notes. In addition to such payments, dividends may also be paid on the common shares of Vermilion.
- (4) Cash flow represents payments made by the Partnership under the Royalty Agreement.
- (5) The Trust will invest funds raised through any subsequent issuance of Trust Units in additional securities of Vermilion to enable Vermilion to make capital expenditures. In addition, the Trust may reinvest a portion of the income received from Vermilion as well as any repayments of principal on the Notes in securities of Vermilion to enable Vermilion to make capital expenditures.

## Summary Description of the Business

### *Vermilion Energy Trust*

The Trust was established to acquire and hold, directly and indirectly, interests in petroleum and natural gas properties. Cash flow from the properties is flowed from Vermilion to the Trust by way of interest payments and principal repayments on the Notes and dividends declared on the common shares of Vermilion, and from the Partnership to the Trust by way of royalty payments under the Royalty Agreement. Under the terms of the Trust Indenture, the Trust is also entitled to:

- (a) acquire or invest in securities of Vermilion and in the securities of any other entity including without limitation, bodies corporate, partnerships or trusts, and borrowing funds or otherwise obtaining credit for that purpose;
- (b) acquire royalties in respect of Canadian resource properties as defined in the Tax Act and making any deferred royalty purchase payments which may be required with respect to such royalties; provided however that in no event shall the Trust invest in any royalties which constitute an interest in land or a covenant running with the properties with respect to which such royalties relate;
- (c) dispose of any part of the property of the Trust, including, without limitation, any securities of Vermilion;
- (d) temporarily hold cash and investments for the purposes of paying the expenses and the liabilities of the Trust, making other Permitted Investments as contemplated by the Trust Indenture, paying amounts payable by the Trust in connection with the redemption of any Trust Units, and making distributions to Unitholders; and
- (e) pay costs, fees and expenses associated with the foregoing purposes or incidental thereto.

The Trustee is prohibited from acquiring any investment which (a) would result in the cost amount to the Trust of all "foreign property" (as defined in the Tax Act) which is held by the Trust to exceed the amount prescribed by section 5000 of the Tax Regulations or (b) would result in the Trust not being considered either a "unit trust" or a "mutual fund trust" for purposes of the Tax Act.

The Trustee may declare payable to the Unitholders all or any part of the net income of the Trust. It is currently anticipated that the only income to be received by the Trust will be from the interest received on the principal amount of Notes, royalty income pursuant to the Royalty Agreement, and dividends on the common shares of Vermilion. The Trust currently makes monthly cash distributions to Unitholders of the interest income earned from the Notes, income earned under the Royalty Agreement and dividends received on the common shares of Vermilion, after expenses, if any, and any cash redemptions of Trust Units.

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

### *Vermilion Resources Ltd.*

Vermilion Resources Ltd. was incorporated under the ABCA on November 23, 1993. On January 1, 2003, Vermilion amalgamated with its wholly-owned subsidiary, 973675 Alberta Ltd. and on January 15, 2003, Vermilion

amalgamated with its wholly-owned subsidiaries, Big Sky Resources Inc., Vermilion Gas Marketing Inc. and 962134 Alberta Ltd. On January 22, 2003, Vermilion was amalgamated with Vermilion Acquisition Ltd. pursuant to the Arrangement. Where the information in this annual information form is as of a date prior to January 22, 2003, the terms "Vermilion" or "Vermilion Resources Ltd." shall refer to Vermilion Resources Ltd. prior to its amalgamation with Vermilion Acquisition Ltd. under the Arrangement.

The Trust is the sole holder of Vermilion common shares. Certain former shareholders of Vermilion own Exchangeable Shares in accordance with the elections made by such holders under the Arrangement. Vermilion continues to carry on an oil and natural gas business similar to that carried on by Vermilion prior to the Arrangement becoming effective. Vermilion owns, directly or indirectly, all of the assets that were owned by Vermilion prior to the Arrangement becoming effective, other than certain exploration assets that were conveyed to Clear Energy Inc. under the Arrangement, and certain Trinidad assets that were transferred to Aventura following the Arrangement becoming effective. See "General Development of the Business of the Trust and Vermilion - Significant Acquisitions and Significant Dispositions".

The head office of Vermilion is located at Suite 2800, 400 – 4<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 0J4 and its registered office is located at Suite 3700, 400 – 3<sup>rd</sup> Avenue S.W., Calgary, Alberta, T2P 4H2.

### **History of Vermilion**

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

On May 22, 2001, Vermilion increased its ownership in Aventura through participation in a private placement of special warrants. In conjunction with the private placement Vermilion also received finance options and finance warrants.

On March 21, 2002, Vermilion closed the acquisition of Artemis Energy Limited, a private company whose principal assets were natural gas producing properties, for total consideration of \$31 million, including \$9.1 million of debt. The acquisition gave Vermilion a new core property located in the Mikwan area of Alberta.

On June 21, 2002, Vermilion signed an agreement to purchase a 40% participating interest in, and operatorship of the Central Block onshore Trinidad, for total consideration of \$66.3 million, including the assumption of \$19 million of debt.

On October 17, 2002, Vermilion increased its ownership in Aventura through participation in a private placement of common shares for an aggregate cost of \$6.0 million

On January 15, 2003 the shareholders of Vermilion approved the reorganization of Vermilion by way of a plan of arrangement under the ABCA into Vermilion Energy Trust and Clear Energy Inc., a publicly traded oil and gas exploration company. The Arrangement, completed on January 22, 2003, resulted in former Vermilion shareholders and optionholders owning all of the issued and outstanding common shares of Clear Energy Inc. and all of the issued and outstanding Trust Units, and the Trust owning all of the issued and outstanding common shares of Vermilion. See "Significant Acquisitions and Significant Dispositions – The Arrangement".

Following the completion of the Arrangement, Vermilion completed certain transactions with Aventura pursuant to which Vermilion transferred all of its Trinidad interests to Aventura in exchange for Aventura Shares, thereby increasing Vermilion's ownership interest in Aventura to 72.2%. Vermilion also acquired from Aventura a 25% gross overriding royalty which was held by Aventura on certain of Vermilion's non-operated interests and properties located in Bottrel, Alberta for cash consideration of \$6.3 million. See "Significant Acquisitions and Significant Dispositions – Transactions with Aventura Energy Inc."

As at March 31, 2004 Vermilion had 132 full time employees of which 63 were located in head office, 26 in Canadian field offices and 43 in France.

## Significant Acquisitions and Significant Dispositions

### *The Arrangement*

Under the terms of the Arrangement, Vermilion was reorganized into the Trust and Clear Energy Inc., which resulted in certain oil and gas exploration assets being transferred to Clear Energy Inc. These assets included oil and gas properties in the Peace River Arch area of Alberta which, at the time of the Arrangement, produced approximately 1,610 BOE/D, together with certain undeveloped landholdings in the southern foothills region of Alberta and in Saskatchewan.

Pursuant to the Arrangement, the outstanding common shares and options of Vermilion were exchanged for an aggregate of 51.5 million Trust Units. Also, as part of the Arrangement, Vermilion issued an aggregate of 6.0 million Exchangeable Shares to former holders of common shares in accordance with elections made by such holders under the Arrangement. Each Exchangeable Share is exchangeable into that number of Trust Units as calculated pursuant to the Exchange Ratio at the time of such exchange. Upon completion of the Arrangement, the Trust held all of the issued and outstanding Notes.

### *Transactions with Aventura Energy Inc.*

In conjunction with the Arrangement, Vermilion entered into an agreement with Aventura whereby Vermilion agreed to complete the following transactions with Aventura (collectively, the "Aventura Transactions"):

- (a) the acquisition by Aventura of all the outstanding common shares of Vermilion (Barbados) Ltd., a subsidiary of Vermilion for consideration consisting of an aggregate of 212.1 million Aventura Shares, at a price of \$0.35 per Aventura Share, for aggregate consideration of \$74.2 million; and
- (b) the acquisition by Vermilion from Aventura of a 25% gross overriding royalty currently held by Aventura on certain of Vermilion's non-operated interests and properties located in Bottrel, Alberta for cash consideration of \$6.3 million.

The Aventura Transactions were completed on January 22, 2003. As a result of the completion of the Aventura Transactions, Vermilion increased its ownership interest in Aventura to 322.7 million Aventura Shares representing 72.2% of the issued and outstanding Aventura Shares. In March 2003, Aventura completed a consolidation of its issued and outstanding common shares on the basis of one new common share for each ten common shares issued and outstanding. As a result, Vermilion's 72.2% ownership interest in Aventura has been consolidated into 32.3 million common shares. In addition, Aventura's common shares commenced trading on the TSX in March 2003 under the symbol AVR.

### **Proposed Transactions**

On February 19, 2004, Vermilion announced the signing of an agreement to purchase 5,900 boe per day of production, 14.3 mmboe of proved (P90) reserves and 17.4 mmboe of proved plus (P50) reserves in the Netherlands by its wholly owned subsidiary, Vermilion Oil & Gas Netherlands B.V. ("Vermilion Netherlands") for Euro 48.3 million (Cdn \$80.5 million) effective January 1, 2004. The transaction is subject to normal government and regulatory approvals and is expected to close in May, 2004.

During 2003, Vermilion and Aventura entered into discussions with a potential acquirer of Aventura. On March 22, 2004, an offer was made to acquire all of the issued and outstanding shares of Aventura for \$5.10 per share. The transaction is expected to close in early May 2004 at which time the Trust would receive a cash payment of approximately \$165 million that would initially be used to reduce outstanding debt and eventually be applied toward the future acquisition of cash-flow generating properties.

On April 5, 2004, Vermilion announced that a newly formed wholly-owned subsidiary, Verenex Energy Inc. ("Verenex"), had entered into an agreement with Prairie Fire Oil & Gas Ltd. ("Prairie Fire"), a capital pool corporation formerly listed on the TSX Venture Exchange, whereby Verenex will amalgamate with Prairie Fire. Verenex was established by Vermilion to accelerate its exploration program in France and to pursue international

exploration and acquisition opportunities. To fund its capital program, Verenex intends to conduct an equity financing. Upon completion of the amalgamation and financing, it is anticipated that Vermilion will own approximately 50% of the shares of Verenex. The transaction is subject to regulatory approvals, the approval of Prairie Fire's minority shareholders and completion of the equity financing. Completion of the transaction is targeted for early June 2004. Verenex's management team will be led by James D. McFarland, a former director of Vermilion.

## **NARRATIVE DESCRIPTION OF THE BUSINESS**

### **Stated Business Objectives**

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

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

### **Description of Properties**

The following is a description of the oil and natural gas properties, plants, facilities and installations in which Vermilion has an interest and that are material to Vermilion's operations and exploration activities. The production numbers stated refer to Vermilion's working interest share before deduction of Crown, freehold and other royalties. Reserve amounts are stated, before deduction of royalties, at December 31, 2003, based on forecast cost and price assumptions as evaluated in the GLJ Report. See "Narrative Description of the Business - Petroleum and Natural Gas Reserves".

#### ***Canada Assets***

The Trust's production in Canada is located in six areas, all in Alberta: Drayton Valley, Slave Lake, Athabasca, Southern Foothills, Central Alberta and Peace River. The Trust's main producing area is Drayton Valley, while Slave Lake is the main oil producing area. Athabasca, Central Alberta and Peace River are mainly gas and Southern Foothills is primarily a non-operated project area.

Vermilion holds an average working interest of 69.5% in 259,895 (180,686 net) acres of developed land, 331 (234 net) producing natural gas wells and 302 (204 net) producing oil wells at December 31, 2003. Vermilion operates two natural gas plants and has an ownership interest in a third, resulting in combined gross processing capacity of over 75 Mmcf/d. In addition, Vermilion has treating capacity of over 13,000 Bbls/d of oil in four oil batteries.

For the year ended December 31, 2003, production in Canada averaged 60.0Mmcf/d of natural gas and 6,678Bbls/d of oil and NGLs.

The GLJ Report indicates that Vermilion's interest in these properties at January 1, 2004 consists of 34,598 MBOE of total proven reserves and 46,633 MBOE of proved plus probable reserves.

### ***France Assets***

Vermilion's main producing area in France is located in the Aquitaine Basin which is southwest of Bordeaux, France. The Paris Basin, located just east of Paris, France is primarily an oil producing area. The area contains five producing fields and one main oil battery at Vaudoy. The South Aquitaine area is the only non-operated producing property that Vermilion holds in France. Vermilion holds a 100% working interest in 37,855 acres of developed land in the Aquitaine and Paris basins and a 30.2% working interest in 8,320 (2,512 net) acres of developed land and 126 (114 net) net producing oil wells at December 31, 2003.

For the year ended December 31, 2003, Vermilion's production in France averaged 6,018 Bbls/d of oil and 1.5 mmcf/d of natural gas.

The GLJ Report indicates that Vermilion's interest in these properties at January 1, 2004 consists of 28,682 MBOE of total proven reserves and 38,989 MBOE of proved plus probable reserves.

### ***Trinidad***

As part of the reorganization of Vermilion, separate from the Arrangement, Vermilion's 40% working interest in the Central Block in Trinidad was acquired by Aventura. As a result of the completion of this transaction, Vermilion owns 72.2% of the outstanding Aventura Shares. The purpose of this transaction was to consolidate the Trinidad property working interest into one international entity and allow for further maturity of these growth assets to be fully realized by Unitholders. All capital expenditures commitments are held by Aventura with no funding obligations remaining with Vermilion.

### ***General Development of the Business of Aventura***

Aventura is an internationally focused public energy company engaged in the exploration, development and production of oil and gas. Aventura's current asset portfolio is a 65% working interest in the central block Trinidad. The assets are contained in the Central Block onshore permit where Trinidad's government oil and gas operating corporation, Petroleum Company of Trinidad Tobago Limited ("Petrotrin"), has a 35% working interest alongside Aventura's interest. For the year ended December 31, 2003, the average production from Aventura's interest in Trinidad was approximately 2,377 BOE/D, and 23 BOE/D from its assets in Argentina. In 2003, Aventura sold all of its operations in Saskatchewan and Argentina to focus on its opportunities in Trinidad. (see also **Proposed Transactions**)

### **Trinidad – Central Block**

The Central Block is an exploration block covering 111 square kilometres in the centre of the onshore Trinidad Southern basin. Aventura has participated in the drilling of four wells in the central block since it commenced operations in the country.

The Carapal Ridge –1 well was drilled and tested in 2001. After the installation of production facilities and a pipeline to Petrotrin facilities, the well was placed on production in December 2002. For 2003, production from this well averaged 2,377 BOE/D, with production rates restricted by available gas markets.

The second well, Corsan –1, was also drilled in 2001 and has been suspended for completion at a later date. In 2003, Aventura participated in the drilling of two wells. The saunders –1 well was drilled and has suspended pending further evaluation to determine the potential effectiveness of a stimulation program. Subsequent to the saunders –1 well, Aventura drilled the Baraka –1 exploration well. The Baraka –1 well tested commercial gas and is currently shut -in pending the installation of tie- in facilities.

The GLJ Report indicates that Aventura's interest in the Central Block at January 1, 2004 consists of 44,499 of total proven reserves and 67,772 of established reserves.

## STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

### Reserves and Future Net Revenue

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

Information contained in this section is effective December 31, 2003 unless otherwise stated. Reserves information with respect to Canada and France was prepared on January 31, 2004 and April 20, 2004 with respect to Trinidad.

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

Reserves for Canada and France are established using deterministic methodology. Reserves for Trinidad are determined by probabilistic methodology due to the reserve size and data available. Total Proved Reserves are established at the 90 percent probability (P90) level. There is a 90 percent probability that the actual reserves recovered will be equal to or greater than the P90 reserves. Total Proved Plus Probable Reserves are established at the 50 percent probability (P50) level. There is a 50 percent probability that the actual reserves recovered will be equal to or greater than the P50 reserves. Trinidad reserves are reported at Aventura's 65% interest, of which Vermilion owns 72.2%.

**Oil and Gas Reserves  
Based on Constant Prices and Costs<sup>(8)</sup>**

	Light and Medium Oil		Natural Gas		Natural Gas Liquids		BOE's	
	Gross <sup>(1)</sup> (mdbl)	Net <sup>(1)</sup> Table	Gross <sup>(1)</sup> (mmcf)	Net <sup>(1)</sup> (mmcf)	Gross <sup>(1)</sup> (mdbl)	Net <sup>(1)</sup> (mdbl)	Gross <sup>(1)</sup> (mdbl)	Net <sup>(1)</sup> (mdbl)
Proved Developed Producing <sup>(2)(5)</sup>								
Canada	11,074	9,832	89,756	69,875	3,561	2,403	29,594	23,881
France	22,588	18,768	3,201	2,767	-	-	23,122	19,229
Trinidad	-	-	161,918	142,335	8,959	7,875	35,945	31,598
<b>Total</b>	<b>33,662</b>	<b>28,600</b>	<b>254,875</b>	<b>214,977</b>	<b>12,520</b>	<b>10,278</b>	<b>88,661</b>	<b>74,708</b>
Proved Developed Non-Producing <sup>(2)(6)</sup>								
Canada	111	105	11,980	9,797	408	286	2,516	2,024
France	1,398	1,133	-	-	-	-	1,398	1,133
Trinidad	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,509</b>	<b>1,238</b>	<b>11,980</b>	<b>9,797</b>	<b>408</b>	<b>286</b>	<b>3,914</b>	<b>3,157</b>
Proved Undeveloped <sup>(2)(7)</sup>								
Canada	648	554	8,607	6,994	406	291	2,489	2,011
France	4,163	3,569	-	-	-	-	4,163	3,569
Trinidad	-	-	39,135	34,317	2,031	1,782	8,554	7,502
<b>Total</b>	<b>4,811</b>	<b>4,123</b>	<b>47,742</b>	<b>41,311</b>	<b>2,437</b>	<b>2,073</b>	<b>15,205</b>	<b>13,081</b>
Total Proved <sup>(2)</sup>								
Canada	11,833	10,492	110,342	86,666	4,375	2,980	34,598	27,916
France	28,148	23,469	3,201	2,767	-	-	28,682	23,930
Trinidad	-	-	201,053	176,652	10,990	9,657	44,499	39,099
<b>Total</b>	<b>39,981</b>	<b>33,961</b>	<b>314,596</b>	<b>266,085</b>	<b>15,365</b>	<b>12,637</b>	<b>107,779</b>	<b>90,946</b>
Total Probable <sup>(3)</sup>								
Canada	3,438	3,099	42,390	33,605	1,532	1,063	12,035	9,763
France	10,206	8,528	608	520	-	-	10,307	8,615
Trinidad	-	-	104,907	92,152	5,789	5,085	23,274	20,444
<b>Total</b>	<b>13,644</b>	<b>11,627</b>	<b>147,905</b>	<b>126,277</b>	<b>7,321</b>	<b>6,148</b>	<b>45,616</b>	<b>38,821</b>
Total Proved Plus Probable <sup>(2)(3)</sup>								
Canada	15,271	13,591	152,732	120,271	5,907	4,043	46,633	37,679
France	38,354	31,997	3,809	3,287	-	-	38,989	32,545
Trinidad	-	-	305,960	268,804	16,779	14,742	67,772	59,543
<b>Total</b>	<b>53,625</b>	<b>45,588</b>	<b>462,501</b>	<b>392,362</b>	<b>22,686</b>	<b>18,785</b>	<b>153,395</b>	<b>129,767</b>

**Net Present Value of Future Net Revenue  
Based on Constant Prices and Costs<sup>(8)</sup>**

	Before Deducting Income Taxes					After Deducting Income Taxes				
	Discounted At					Discounted At				
	0%	5%	10%	15%	20%	0%	5%	10%	15%	20%
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
Proved Developed Producing <sup>(2)(5)</sup>										
Canada	643,304	492,537	404,970	347,618	306,906	643,304	492,537	404,970	347,618	306,906
France	392,865	274,046	213,400	176,885	152,390	265,944	189,374	149,253	124,649	107,912
Trinidad	381,696	272,068	202,103	155,490	123,236	182,620	132,946	100,993	79,514	64,506
<b>Total</b>	<b>1,417,865</b>	<b>1,038,651</b>	<b>820,473</b>	<b>679,993</b>	<b>582,532</b>	<b>1,091,868</b>	<b>814,857</b>	<b>655,216</b>	<b>551,781</b>	<b>479,324</b>
Proved Developed Non-Producing <sup>(2)(6)</sup>										
Canada	55,482	41,664	33,342	27,794	23,831	55,482	41,664	33,342	27,794	23,831
France	24,074	14,119	8,880	5,790	3,811	15,491	9,137	5,180	3,127	1,857
Trinidad										
<b>Total</b>	<b>79,556</b>	<b>55,783</b>	<b>42,222</b>	<b>33,584</b>	<b>27,642</b>	<b>70,973</b>	<b>50,801</b>	<b>38,522</b>	<b>30,921</b>	<b>25,688</b>
Proved Undeveloped <sup>(2)(8)</sup>										
Canada	41,213	31,337	24,308	19,151	15,259	41,213	31,337	24,308	19,151	15,259
France	83,297	54,163	38,441	28,637	21,967	53,600	33,046	22,415	15,465	10,710
Trinidad	89,566	46,626	25,421	14,510	8,675	37,472	19,120	10,185	5,659	3,281
<b>Total</b>	<b>214,076</b>	<b>132,126</b>	<b>88,170</b>	<b>62,298</b>	<b>45,901</b>	<b>132,285</b>	<b>83,503</b>	<b>56,908</b>	<b>40,275</b>	<b>29,250</b>
Total Proved <sup>(2)</sup>										
Canada	739,999	565,538	462,620	394,563	345,997	739,999	565,538	462,620	394,563	345,997
France	500,237	342,327	260,722	211,312	178,169	335,035	231,557	176,848	143,241	120,479
Trinidad	471,260	318,692	227,524	170,000	131,910	220,092	152,066	111,177	85,173	67,788
<b>Total</b>	<b>1,711,496</b>	<b>1,226,557</b>	<b>950,866</b>	<b>775,875</b>	<b>656,076</b>	<b>1,295,126</b>	<b>949,161</b>	<b>750,645</b>	<b>622,977</b>	<b>534,264</b>
Total Probable <sup>(3)</sup>										
Canada	252,116	156,337	109,457	82,323	64,867	252,116	156,337	109,457	82,323	64,867
France	183,617	99,088	63,238	43,971	32,109	118,285	62,130	37,881	24,783	16,739
Trinidad	285,893	167,870	106,946	73,023	52,776	124,788	73,155	46,511	31,679	22,830
<b>Total</b>	<b>721,626</b>	<b>423,295</b>	<b>279,641</b>	<b>199,317</b>	<b>149,752</b>	<b>495,189</b>	<b>291,622</b>	<b>193,849</b>	<b>138,785</b>	<b>104,436</b>
Total Proved Plus Probable <sup>(2)(3)</sup>										
Canada	992,115	721,875	572,077	476,886	410,864	992,115	721,875	572,077	476,886	410,864
France	683,853	441,415	323,960	255,283	210,278	453,320	293,687	214,729	168,024	137,218
Trinidad	757,153	486,564	334,470	243,023	184,686	344,880	225,221	157,688	116,852	90,618
<b>Total</b>	<b>2,433,121</b>	<b>1,649,854</b>	<b>1,230,507</b>	<b>975,192</b>	<b>805,828</b>	<b>1,790,315</b>	<b>1,240,783</b>	<b>944,494</b>	<b>761,762</b>	<b>638,700</b>

Exchange Rate US\$/SCdn =

0.7738

**Total Future Net Revenue  
(Undiscounted)  
Based on Constant Prices and Costs<sup>(8)</sup>**

	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Development Costs (M\$)	Abandonment and Reclamation Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Income Taxes (M\$)	Revenue After Income Taxes (M\$)
Total Proved <sup>(2)</sup>								
Canada	1,323,266	230,365	296,467	27,708	28,726	739,999	-	739,999
France	976,152	161,532	263,220	41,794	9,369	500,237	165,202	335,035
Trinidad	602,533	73,130	35,840	21,715	588	471,260	251,168	220,092
<b>Total</b>	<b>2,901,951</b>	<b>465,027</b>	<b>595,527</b>	<b>91,217</b>	<b>38,683</b>	<b>1,711,496</b>	<b>416,370</b>	<b>1,295,126</b>
Total Proved Plus Probable <sup>(2)(3)</sup>								
Canada	1,781,207	309,155	396,218	54,113	29,605	992,115	-	992,115
France	1,331,367	219,708	333,138	83,599	11,069	683,853	230,533	453,320
Trinidad	942,555	114,475	42,533	27,763	631	757,153	412,273	344,880
<b>Total</b>	<b>4,055,129</b>	<b>643,338</b>	<b>771,889</b>	<b>165,475</b>	<b>41,305</b>	<b>2,433,121</b>	<b>642,806</b>	<b>1,790,315</b>

Exchange Rate US\$/SCdn =

0.7738

**Future Net Revenue By Production Group  
Based on Constant Prices and Costs<sup>(8)</sup>**

	Production Group	Future Net Revenue Before Income Taxes (Discounted at 10%/Year) (M\$)
Total Proved <sup>(2)</sup>	Light and medium crude oil	405,253
	Associated gas and non-associated gas	555,025
Total Proved Plus Probable <sup>(2)(3)</sup>	Light and medium crude oil	486,297
	Associated gas and non-associated gas	751,679



**Oil and Gas Reserves**  
Based on Forecast Prices and Costs<sup>(9)</sup>

	Light and Medium Oil		Natural Gas		Natural Gas Liquids		BOE's	
	Gross <sup>(1)</sup> (mbl)	Net <sup>(1)</sup> (mbl)	Gross <sup>(1)</sup> (mmcf)	Net <sup>(1)</sup> (mmcf)	Gross <sup>(1)</sup> (mbl)	Net <sup>(1)</sup> (mbl)	Gross <sup>(1)</sup> (mboe)	Net <sup>(1)</sup> (mboe)
Proved Developed Producing <sup>(2)(5)</sup>								
Canada	10,878	9,756	88,813	69,088	3,548	2,405	29,228	23,676
France	22,107	18,366	3,201	2,767	-	-	22,641	18,827
Trinidad	-	-	161,918	142,730	8,959	7,897	35,945	31,685
<b>Total</b>	<b>32,985</b>	<b>28,122</b>	<b>253,932</b>	<b>214,585</b>	<b>12,507</b>	<b>10,302</b>	<b>87,814</b>	<b>74,188</b>
Proved Developed Non-Producing <sup>(2)(6)</sup>								
Canada	106	101	11,925	9,753	409	288	2,503	2,015
France	1,398	1,133	-	-	-	-	1,398	1,133
Trinidad	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,504</b>	<b>1,234</b>	<b>11,925</b>	<b>9,753</b>	<b>409</b>	<b>288</b>	<b>3,901</b>	<b>3,148</b>
Proved Undeveloped <sup>(2)(7)</sup>								
Canada	645	560	8,589	6,980	405	292	2,482	2,015
France	4,162	3,568	-	-	-	-	4,162	3,568
Trinidad	-	-	391,355	34,413	2,031	1,787	8,554	7,523
<b>Total</b>	<b>4,807</b>	<b>4,128</b>	<b>47,724</b>	<b>41,393</b>	<b>2,436</b>	<b>2,079</b>	<b>15,197</b>	<b>13,106</b>
Total Proved <sup>(2)</sup>								
Canada	11,629	10,417	109,327	85,821	4,362	2,985	34,212	27,706
France	27,667	23,066	3,201	2,767	-	-	28,201	23,527
Trinidad	-	-	201,053	177,143	10,990	9,684	44,499	39,208
<b>Total</b>	<b>39,296</b>	<b>33,483</b>	<b>313,581</b>	<b>265,731</b>	<b>15,352</b>	<b>12,669</b>	<b>106,912</b>	<b>90,441</b>
Total Probable <sup>(3)</sup>								
Canada	3,332	3,028	41,728	33,073	1,529	1,067	11,816	9,607
France	10,043	8,390	608	520	-	-	10,144	8,477
Trinidad	-	-	104,637	92,452	5,789	5,102	23,229	20,511
<b>Total</b>	<b>13,375</b>	<b>11,418</b>	<b>146,973</b>	<b>126,045</b>	<b>7,318</b>	<b>6,169</b>	<b>45,189</b>	<b>38,595</b>
Total Proved Plus Probable <sup>(2)(3)</sup>								
Canada	14,961	13,446	151,055	118,895	5,891	4,052	46,028	37,314
France	37,710	31,456	3,809	3,287	-	-	38,345	32,004
Trinidad	-	-	305,960	269,595	16,779	14,786	67,772	59,719
<b>Total</b>	<b>52,671</b>	<b>44,902</b>	<b>460,824</b>	<b>391,777</b>	<b>22,670</b>	<b>18,838</b>	<b>152,145</b>	<b>129,036</b>

**Net Present Value of Future Net Revenue  
Based on Forecast Prices and Costs<sup>(9)</sup>**

	Before Deducting Income Taxes					After Deducting Income Taxes				
	Discounted At					Discounted At				
	0% (M\$)	5% (M\$)	10% (M\$)	15% (M\$)	20% (M\$)	0% (M\$)	5% (M\$)	10% (M\$)	15% (M\$)	20% (M\$)
<b>Proved Developed Producing<sup>(2)(5)</sup></b>										
Canada	466,210	370,867	312,643	273,322	244,797	466,210	370,867	312,643	273,322	244,797
France	224,744	174,668	144,284	124,220	109,962	155,809	124,802	104,474	90,566	80,467
Trinidad	348,385	247,475	183,441	140,969	111,681	172,044	125,044	94,939	74,764	60,696
<b>Total</b>	<b>1,039,339</b>	<b>793,010</b>	<b>640,368</b>	<b>538,511</b>	<b>466,440</b>	<b>794,063</b>	<b>620,713</b>	<b>512,056</b>	<b>438,652</b>	<b>385,960</b>
<b>Proved Developed Non-Producing<sup>(2)(6)</sup></b>										
Canada	43,422	33,073	26,792	22,576	19,546	43,422	33,073	26,792	22,576	19,546
France	15,327	7,969	4,249	2,134	825	9,819	4,784	2,292	966	273
Trinidad										
<b>Total</b>	<b>58,749</b>	<b>41,042</b>	<b>31,041</b>	<b>24,710</b>	<b>20,371</b>	<b>53,241</b>	<b>37,857</b>	<b>29,084</b>	<b>22,576</b>	<b>19,819</b>
<b>Proved Undeveloped<sup>(2)(7)</sup></b>										
Canada	24,030	18,013	13,491	10,082	7,468	24,030	18,013	13,491	10,082	7,468
France	55,577	35,135	23,973	17,009	12,287	35,596	21,087	12,927	7,715	4,075
Trinidad	92,613	47,799	25,901	14,741	8,823	39,283	19,816	10,457	5,773	3,340
<b>Total</b>	<b>172,220</b>	<b>100,947</b>	<b>63,365</b>	<b>41,832</b>	<b>28,578</b>	<b>98,909</b>	<b>58,916</b>	<b>36,875</b>	<b>23,570</b>	<b>14,883</b>
<b>Total Proved<sup>(2)</sup></b>										
Canada	533,662	421,953	352,926	305,980	271,812	533,662	421,953	352,926	305,980	271,812
France	295,649	217,772	172,507	143,363	123,075	201,224	150,673	119,693	99,247	84,815
Trinidad	440,999	295,272	209,343	155,712	120,503	211,327	144,860	105,396	80,537	64,036
<b>Total</b>	<b>1,270,310</b>	<b>934,997</b>	<b>734,776</b>	<b>605,055</b>	<b>515,390</b>	<b>946,213</b>	<b>717,486</b>	<b>578,015</b>	<b>485,764</b>	<b>420,663</b>
<b>Total Probable<sup>(3)</sup></b>										
Canada	178,598	111,818	78,410	58,911	46,307	178,598	111,818	78,410	58,911	46,307
France	115,297	60,606	36,713	23,919	16,138	73,611	37,193	20,692	11,770	6,358
Trinidad	303,363	172,628	107,041	71,517	50,845	133,785	75,868	46,868	31,188	22,081
<b>Total</b>	<b>597,258</b>	<b>345,052</b>	<b>222,164</b>	<b>154,347</b>	<b>113,290</b>	<b>385,994</b>	<b>224,879</b>	<b>145,970</b>	<b>101,869</b>	<b>74,746</b>
<b>Total Proved Plus Probable<sup>(2)(3)</sup></b>										
Canada	712,259	533,771	431,336	364,891	318,118	712,259	533,771	431,336	364,891	318,118
France	410,946	278,378	209,220	167,281	139,212	274,835	187,866	140,385	111,017	91,173
Trinidad	744,361	467,900	316,384	227,228	171,349	345,112	220,728	152,264	111,725	86,117
<b>Total</b>	<b>1,867,566</b>	<b>1,280,049</b>	<b>956,940</b>	<b>759,400</b>	<b>628,679</b>	<b>1,332,206</b>	<b>942,365</b>	<b>723,985</b>	<b>587,633</b>	<b>495,408</b>

Exchange Rate US\$/Cdn = 0.75

**Total Future Net Revenue  
(Undiscounted)  
Based on Forecast Prices and Costs<sup>(9)</sup>**

	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Development Costs (M\$)	Abandonment and Reclamation Costs (M\$)	Future Net Revenue		Revenue After Income Taxes (M\$)
						Before Income Taxes (M\$)	Income Taxes (M\$)	
<b>Total Proved<sup>(2)</sup></b>								
Canada	1,109,965	185,887	327,971	27,918	34,528	533,662	-	533,662
France	792,717	131,100	308,872	42,282	14,815	295,649	94,425	201,224
Trinidad	576,596	68,585	42,148	24,257	607	440,999	229,672	211,327
<b>Total</b>	<b>2,479,278</b>	<b>385,572</b>	<b>678,991</b>	<b>94,457</b>	<b>49,950</b>	<b>1,270,310</b>	<b>324,097</b>	<b>946,213</b>
<b>Total Proved Plus Probable<sup>(2)(3)</sup></b>								
Canada	1,500,735	249,477	447,203	54,683	37,113	712,259	-	712,259
France	1,092,842	180,411	399,346	84,895	17,245	410,946	136,111	274,835
Trinidad	939,224	111,609	51,379	31,224	651	744,361	399,249	345,112
<b>Total</b>	<b>3,532,801</b>	<b>541,497</b>	<b>897,928</b>	<b>170,802</b>	<b>55,009</b>	<b>1,867,566</b>	<b>535,360</b>	<b>1,332,206</b>

Exchange Rate US\$/Cdn = 0.75

**Future Net Revenue By Production Group  
Based on Future Prices and Costs<sup>(9)</sup>**

	<b>Production Group</b>	<b>Future Net Revenue Before Income Taxes (Discounted at 10%/Year)</b>
		<b>(M\$)</b>
Total Proved <sup>(2)</sup>	Light and medium crude oil	280,622
	Associated gas and non-associated gas	465,403
Total Proved Plus Probable <sup>(2),(3)</sup>	Light and medium crude oil	329,721
	Associated gas and non-associated gas	636,397

**Reconciliation of Company Net  
Reserves by Principal Product Type  
Based on Forecast Prices and Costs<sup>(9)</sup>**

The following table sets forth a reconciliation of the changes in Vermilion's light and medium crude oil, associated and non-associated gas (combined) reserves as at December 31, 2003 against such reserves as at December 31, 2002.

	Light and Medium Oil			Associated and Non-Associated Gas			Natural Gas Liquids		
	Net Proved (mdbl)	Net Probable (mdbl)	Net Proved Plus Probable (mdbl)	Net Proved (MMcf)	Net Probable (MMcf)	Net Proved Plus Probable (MMcf)	Net Proved (mdbl)	Net Probable (mdbl)	Net Proved Plus Probable (mdbl)
<b>CANADA</b>									
<b>At December 31, 2002</b>	12,045	1,835	13,880	111,943	27,225	139,168	3,840	890	4,730
Extensions	92	112	204	2,208	1,092	3,300	38	21	59
Improved Recovery	-	-	-	-	-	-	-	-	-
Technical Revisions	-287	1,154	867	-9,775	5,727	-4,048	-265	202	-63
Discoveries	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-56	-73	-129	-3,082	-970	-4,052	-145	-46	-191
Economic Factors	-	-	-	-	-	-	-	-	-
Production	-1,376	-	-1,376	-15,473	-	-15,473	-483	-	-483
<b>At December 31, 2003</b>	10,418	3,028	13,446	85,821	33,074	118,895	2,985	1,067	4,052
<b>FRANCE</b>									
<b>At December 31, 2002</b>	23,186	5,728	28,914	2,893	470	3,363	-	-	-
Extensions	-	-	-	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-
Technical Revisions	1791	1816	3607	403	50	453	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production	-1911	-	-1911	-529	-	-529	-	-	-
<b>At December 31, 2003</b>	23,066	8,390	31,456	2,767	520	3,287	-	-	-
<b>TRINIDAD</b>									
<b>At December 31, 2002</b>	-	-	-	110,831	148,566	259,397	4,057	5,487	9,544
Extensions	-	-	-	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-	-	-	-
Technical Revisions	-	-	-	39,654	-70,732	-31,078	3,963	-1,218	2,745
Discoveries	-	-	-	31,351	14,618	45,969	1,787	833	2,620
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-
Production	-	-	-	-4,693	-	-4,693	-123	-	-123
<b>At December 31, 2003</b>	-	-	-	177,143	92,452	269,595	9,684	5,102	14,786
<b>TOTAL VERMILION</b>									
<b>At December 31, 2002</b>	35,231	7,563	42,794	225,667	176,261	401,928	7,897	6,377	14,274
Extensions	92	958	1,050	2,208	1,092	3,300	38	21	59
Improved Recovery	-	-	-	-	-	-	-	-	-
Technical Revisions	1,504	2,970	4,474	30,282	-64,955	-34,673	3,698	-1,016	2,682
Discoveries	-	-	-	39,654	-70,732	-31,078	1,787	833	2,620
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-56	-73	-129	-3,082	-970	-4,052	-145	-46	-191
Economic Factors	-	-	-	-	-	-	-	-	-
Production	-3,287	-	-3,287	-20,695	-	-20,695	-606	-	-606
<b>At December 31, 2003</b>	33,484	11,418	44,902	274,034	40,696	314,730	12,669	6,169	18,838

The following table sets forth changes between future net revenue estimates attributable to net proved reserves as at December 31, 2003 against such reserves as at December 31, 2002.

**Reconciliation of Changes in Net Present Values of Future Net Revenue  
Discounted at 10%  
Based on Constant Prices and Costs <sup>(8)</sup>**

	(M\$)
<b>Canada</b>	
Estimated Future Net Revenue at December 31, 2002	<b>679,864</b>
Sales and Transfers of Oil and Gas Produced, Net of Production Costs and Royalties	(130,492)
Net Change in Prices, Production Costs and Royalties Related to Future Production	(121,994)
Development Costs During the Period	28,997
Changes in Estimated Future Development Costs	(14,932)
Extensions and Improved Recovery	9,119
Discoveries	-
Acquisitions of Reserves	-
Dispositions of Reserves	(18,384)
Technical Reserves Revisions	(43,343)
Accretion of Discount	67,986
Net Change in Income Taxes	-
All Other Changes	5,798
Estimated Future Net Revenue at December 31, 2003	<b>462,620</b>
<b>France</b>	
Estimated Future Net Revenue at December 31, 2002	<b>247,147</b>
Sales and Transfers of Oil and Gas Produced, Net of Production Costs and Royalties	(47,002)
Net Change in Prices, Production Costs and Royalties Related to Future Production	(153,147)
Development Costs during the Period	28,353
Changes in Estimated Future Development Costs	(16,369)
Extensions and Improved Recovery	11,939
Discoveries	-
Acquisitions of Reserves	-
Dispositions of Reserves	-
Technical Reserves Revisions	7,478
Accretion of Discount	36,863
Net Change in Income Taxes	32,997
All Other Changes	28,588
Estimated Future Net Revenue at December 31, 2003	<b>176,848</b>
<b>Trinidad</b>	
Estimated Future Net Revenue at December 31, 2002	<b>62,419</b>
Sales and Transfers of Oil and Gas Produced, Net of Production Costs and Royalties	(8,793)
Net Change in Prices, Production Costs and Royalties Related to Future Production	3,439
Development Costs during the Period	13,460
Changes in Estimated Future Development Costs	(15,821)
Extensions and Improved Recovery	-
Discoveries	22,639
Acquisitions of Reserves	-
Dispositions of Reserves	-
Technical Reserves Revisions	81,626
Accretion of Discount	11,683
Net Change in Income Taxes	(61,940)
All Other Changes	2,466
Estimated Future Net Revenue at December 31, 2003	<b>111,178</b>

**Notes:**

- "Gross Reserves" are Vermilion's working interest (operating or non-operating) share before deducting of royalties and without including any royalty interests of the company. "Net Reserves" are the company's working interest (operating or non-operating) share after deduction of royalty obligations, plus the company's royalty interests in reserves.
- "Proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- "Probable" reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.
- "Developed" reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g. when compared to the cost of drilling a well) to put the reserves on production.

5. "Developed Producing" reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
6. "Developed Non-Producing" reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.
7. "Undeveloped" reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.
8. The product prices used in the constant price and cost evaluations in the GLJ Report were as follows:
 

<b>Oil</b>	- \$40.81 Cdn/Bbl Light, Sweet Crude at Edmonton	<b>Gas</b>	- \$ 6.09 Cdn/mmbtu AECO-C Spot
<b>Pentanes Plus</b>	- \$41.31 Cdn/Bbl at Edmonton	<b>Propane</b>	- \$29.81 Cdn/Bbl at Edmonton
<b>Butane</b>	- \$31.81 Cdn/Bbl at Edmonton	<b>Trinidad Gas</b>	\$1.56 Cdn/mcf
9. The pricing assumptions used in the GLJ Report with respect to net values of future net revenue (forecast) as well as the inflation rates used for operating and capital costs are set forth below. The Natural Gas Liquids price is an aggregate of the individual natural gas liquids prices used in the Total Proved + Probable evaluation. GLJ is an independent qualified reserves evaluator appointed pursuant to NI 51-101.

Year	Light and Medium Crude Oil		Crude Oil	Natural Gas	Natural Gas Trinidad	Natural Gas Liquids	Inflation Rate	Exchange Rate	
	WTI Cushing Oklahoma (\$US/bbl)	Edmonton Par Price 40 <sup>0</sup> API (\$Cdn/bbl)	Cromer Medium 29.3 <sup>0</sup> API (\$Cdn/bbl)	Brent Blend Crude Oil FOB North Sea (\$US/bbl)	AECO Gas Price (\$Cdn/mmbtu)	Wellhead Gas Price \$Cdn/Mcf	FOB Field Gate (\$Cdn/bbl)	%/year	\$US/\$Cdn
Forecast									
2003									
2004	29.00	37.75	31.75	27.50	5.85	1.56	28.92	1.5	.75
2005	26.00	33.75	28.75	24.50	5.15	1.56	24.89	1.5	.75
2006	25.00	32.50	28.50	23.50	5.00	1.41	23.81	1.5	.75
2007	25.00	32.50	28.50	23.50	5.00	1.40	23.89	1.5	.75
2008	25.00	32.50	28.50	23.50	5.00	1.33	23.84	1.5	.75
Thereafter	25.00	32.50	28.50	23.50	5.00	1.33	23.82	1.5	.75

### Undeveloped Reserves

The following table is based on forecast evaluations and sets forth the net volumes of proved undeveloped reserves that were attributed for each of Vermilion's product types for Canada and France for the most recent five financial years and in the aggregate before that time.

	Light and Medium Oil (mmbbl)	Natural Gas (mmcf)	Natural Gas Liquids (mmbbl)	BOE's (mmbbl)
Aggregate prior to 1999	-	-	-	-
1999	1,359	-	-	1,359
2000	1,360	1,829	120	1,785
2001	1,466	133	5	1,493
2002	4,366	17,305	497	7,748
2003	2,738	14,852	568	5,782

### Undeveloped Reserves

The following table is based on forecast evaluations and sets forth the net volumes of proved undeveloped reserves that were attributed for each of Vermilion's product types for Trinidad for the most recent five financial years and in the aggregate before that time.

	Light and Medium Oil (mmbbl)	Natural Gas (mmcf)	Natural Gas Liquids (mmbbl)	BOE's (mmbbl)
Aggregate prior to 1999	-	-	-	-
1999	-	-	-	-
2000	-	-	-	-
2001	-	-	-	-
2002	-	48,457	1,773	9,849
2003	-	3,501	0	548

Proven undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. These reserves have a 90% probability of being recovered.

Vermilion's current plan is to develop these reserves in the following 2 years. This timetable may be altered depending on outside market forces, changes in capital allocations and impact of future acquisitions and dispositions.

The following table is based on forecast evaluations and sets forth the net volumes of probable undeveloped reserves that were attributed for each of Vermilion's product types for Canada and France for the most recent five financial years and in the aggregate before such time:

	Light and Medium Oil (mdbl)	Natural Gas (mmcf)	Natural Gas Liquids (mdbl)	BOE's (mdbl)
Aggregate prior to 1999	-	-	-	-
1999	-	-	-	-
2000	-	-	-	-
2001	-	-	-	-
2002	6,197	10,172	339	8,231
2003	7,384	8,410	325	9,111

The following table is based on forecast evaluations and sets forth the net volumes of probable undeveloped reserves that were attributed for each of Vermilion's product types for Trinidad for the most recent five financial years and in the aggregate before such time:

	Light and Medium Oil (mdbl)	Natural Gas (mmcf)	Natural Gas Liquids (mdbl)	BOE's (mdbl)
Aggregate prior to 1999	-	-	-	-
1999	-	-	-	-
2000	-	-	-	-
2001	-	-	-	-
2002	-	64,793	2,393	13,192
2003	-	106,577	3,762	21,525

Probable undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. These reserves have a 50% probability of being recovered.

Vermilion's current plan is to develop these reserves in over the next 5 years. In general, development of these reserves requires additional evaluation data to increase the probability of success to an acceptable level for Vermilion. This increases the timeline for the development of these reserves. This timetable may be altered depending on outside market forces, changes in capital allocations and impact of future acquisitions and dispositions.

### Future Development Costs

	Total Proved Estimated Using Constant Prices and Costs (M\$)	Total Proved Estimated Using Forecast Prices and Costs (M\$)	Total Proved Plus Probable Estimated Using Forecast Prices and Costs (M\$)
<b>Canada</b>			
2004	21,279	21,279	33,856
2005	3,152	3,199	12,046
2006	424	437	4,769
2007	383	400	453
2008	-	-	318
Remainder	2,470	2,603	3,241
Total for all years undiscounted	27,708	27,918	54,683
Total for all years discounted at 10%/year	24,724	24,785	48,374
<b>France</b>			
2004	20,450	20,450	32,855
2005	14,390	14,606	28,207
2006	5,678	5,850	14,091

2007	378	395	8,761
2008	243	258	258
Remainder	655	723	723
Total for all years undiscounted	41,794	42,282	84,895
Total for all years discounted at 10%/year	37,208	37,587	73,691
<b>Trinidad</b>			
2004	0	0	0
2005	3,477	3,477	3,477
2006	2,925	2,969	4,421
2007	0	0	0
2008	0	0	0
Remainder	10,401	11,747	15,520
Total for all years undiscounted	16,803	18,193	23,418
Total for all years discounted at 10%/year	9,619	10,159	12,716

Vermilion expects to source its capital expenditure requirements from internally generated cashflow and as appropriate from debt or equity financing. It is anticipated that costs of funding the future development costs will not impact development of its properties. In Trinidad, Vermilion and Aventura entered into discussions with a potential acquirer of Aventura. (see **Proposed Transactions**) Should the acquisition close, the acquirer of Aventura would be responsible for the future capital expenditure costs in Trinidad.

### *Oil and Gas Properties and Wells*

The following table sets forth the number of wells in which Vermilion held a working interest as at December 31, 2003:

	Oil		Natural Gas	
	Gross <sup>(1)</sup> Wells	Net <sup>(2)</sup> Wells	Gross <sup>(1)</sup> Wells	Net <sup>(2)</sup> Wells
<b>Alberta</b>				
Producing	302	204	331	234
Non-producing	71	50	60	43
<b>France</b>				
Producing	126	114	-	-
Non-producing	21	13	-	-
<b>Trinidad</b>				
Producing	-	-	1	0.65
Non-producing	1	0.65	2	1.3
<b>Total</b>				
Producing	428	318	332	234.65
Non-producing	93	63.65	62	44.3

**Notes:**

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

### *Costs Incurred*

The following table summarizes the capital expenditures made by Vermilion on oil and natural gas properties for the year ended December 31, 2003.

	Property Acquisition Costs (M\$)		Exploration Costs (M\$)	Development Costs (M\$)
	Proved Properties	Unproved Properties		
Canada	-	-	5,819	27,692
France	-	-	-	30,469
Trinidad	-	-	15,586	-
Total	-	-	21,405	58,161

### Exploration and Development Activities

The following table sets forth the number of exploratory and development wells, which Vermilion completed during its 2003 financial year:

	Exploratory Wells		Development Wells	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
Canada				
Oil Wells	-	-	-	-
Gas Wells	14	7.3	5	3.1
Dry Holes	1	0.5	3	1.5
Total Completed Wells	15	7.8	8	4.6
France				
Oil Wells	1	1	1	1
Gas Wells	-	-	-	-
Dry Holes	-	-	-	-
Total Completed Wells	1	1	1	1
Trinidad				
Oil Wells	1	0.65	-	-
Gas Wells	1	0.65	-	-
Dry Holes	-	-	-	-
Total Completed Wells	2	1.3	-	-
Total Vermilion				
Oil Wells	2	1.65	1	1
Gas Wells	15	7.95	5	3.1
Dry Holes	1	0.5	3	1.5
Total Completed Wells	18	10.1	9	5.6

Vermilion has initially budgeted \$45 million for its 2004 capital program in Canada and France. The funds will be used to drill wells to develop reserves in its key areas of Drayton Valley, Slave Lake, Athabasca and Central Alberta and the Paris basin. A portion of the capital will be allocated to workovers, production optimization, and maintenance capital.

### Properties with No Attributed Reserves

The following table sets out Vermilion's undeveloped land as at December 31, 2003

Area	Undeveloped Land	
	Gross Acres <sup>(1)</sup>	Net Acres <sup>(1)</sup>
Alberta	504,129	375,303
France	1,102,312	699,855
Trinidad	26,250	17,063
Total	1,632,691	1,092,221

#### Notes:

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

### Abandonment and Reclamation Costs

Vermilion has estimated its abandonment costs by determining amounts for facility decommissioning and reclamation costs (including salvage) by area in both Canada and France. As well Vermilion has determined abandonment costs (including salvage) and reclamation costs per well, by area and applied this amount to its net wells in each of Canada and France. The GLJ report includes amounts for abandonment and reclamation costs in Trinidad. As there are only four wells in Trinidad and the amounts included for abandonment and reclamation are not considered material, such costs are not included in the abandonment tables below for Vermilion.



The number of net wells to be abandoned is 668 in Canada and 204 in France.

The total amount of costs net of salvage is set forth in the following table.

<u>Country</u>	<u>Undiscounted (M\$)</u>	<u>Discounted 10% (M\$)</u>
Canada	33,726	5,425
France	39,233	1,703

In estimating the future net revenue it is important to note that facilities costs and non-producing wells in France were excluded from the abandonment calculation totalling:

	<u>Facilities</u>		<u>Non-Producing</u>	
	<u>Undiscounted (\$m)</u>	<u>Discounted 10%</u>	<u>Undiscounted</u>	<u>Discounted 10%</u>
Canada	7,248	190		
France	20,713	411	8,174	2,145

In the next three years, Vermilion expects to pay:

<u>Country</u>	<u>Undiscounted (M\$)</u>	<u>Discounted 10% (M\$)</u>
Canada	873	668
France	59	45

Vermilion has set aside a reclamation fund to help cover these future costs. It is currently funded at \$0.20 per producing boe.

#### *Tax Horizon*

As a result of the Trust's tax efficient structure, annual taxable income in Canada is transferred from its operating entities to Vermilion Energy Trust, and from the Trust to its Unitholders. This is primarily accomplished through the deduction of the royalties on underlying oil and gas properties held by its operating subsidiaries. Therefore, it can be expected that no income tax liability would be incurred by the Trust in Canada for as long as the organization maintains this corporate tax structure. In France, the Trust is currently taxable, subject to a 35.4% corporate tax rate after eligible deductions.

#### *Production Estimates*

The following table sets forth the volume of production estimated for 2004:

	<u>Light and Medium Oil (mdbl)</u>	<u>Natural Gas (mmcf)</u>	<u>Natural Gas Liquids (mdbl)</u>	<u>BOE (mdbl)</u>
Canada	1,540	21,801	855	6,029
France	2,577	466	-	2,655
Trinidad	-	4,600	115	882
Total Trust	<u>4,117</u>	<u>26,867</u>	<u>970</u>	<u>9,566</u>

#### *Production History*

The following table sets forth certain information in respect of production, product prices received, royalties, production costs and netbacks received by Vermilion for each quarter of its most recently completed financial year:

	Three Months Ended March 31, 2003	Three Months Ended June 30, 2003	Three Months Ended September 30, 2003	Three Months Ended December 31, 2003
<b>Canada</b>				
Average Daily Production				
Light and Medium Oil (bbl/d)	5,049	5,184	4,530	2,220
Natural Gas (mcf/d)	65.42	62.67	57.62	54.28
Natural Gas Liquids (bbl/d)	1,956	2,111	1,867	1,808
Average Net Prices Received				
Light and Medium Oil (\$/bbl)	42.90	41.08	42.45	44.61
Natural Gas (\$/mcf)	6.45	6.25	5.66	5.57
Natural Gas Liquids (\$/bbl)	41.09	35.06	32.38	35.36
Royalties				
Light and Medium Oil (\$/bbl)	10.80	8.44	7.90	8.06
Natural Gas (\$/mcf)	1.82	2.16	1.86	1.69
Natural Gas Liquids (\$/bbl)	12.70	10.33	9.97	11.18
Production Costs				
Light and Medium Oil (\$/bbl)	6.13	5.62	7.19	8.20
Natural Gas (\$/mcf)	0.68	0.86	0.91	1.07
Natural Gas Liquids (\$/bbl)	6.13	5.62	7.19	8.20
Netback Received				
Light and Medium Oil (\$/bbl)	25.97	27.02	27.36	28.35
Natural Gas (\$/mcf)	3.95	3.23	2.89	2.81
Natural Gas Liquids (\$/bbl)	22.26	19.11	15.22	15.98
<b>France</b>				
Average Daily Production				
Light and Medium Oil (bbl/d)	5,987	6,107	5,824	6,155
Natural Gas (mcf/d)	1.42	1.36	1.59	1.69
Natural Gas Liquids (bbl/d)	-	-	-	-
Average Net Prices Received				
Light and Medium Oil (\$/bbl)	36.16	28.65	30.16	33.00
Natural Gas (\$/mcf)	5.71	4.66	4.92	4.75
Natural Gas Liquids (\$/bbl)	-	-	-	-
Royalties				
Light and Medium Oil (\$/bbl)	4.99	4.04	4.47	4.97
Natural Gas (\$/mcf)	0.25	0.24	0.25	0.24
Natural Gas Liquids (\$/bbl)	-	-	-	-
Production Costs				
Light and Medium Oil (\$/bbl)	6.80	6.69	6.57	6.48
Natural Gas (\$/mcf)	2.37	2.65	2.88	0.73
Natural Gas Liquids (\$/bbl)	-	-	-	-
Netback Received				
Light and Medium Oil (\$/bbl)	24.37	17.92	19.12	21.55
Natural Gas (\$/mcf)	3.09	1.77	1.79	3.78
Natural Gas Liquids (\$/bbl)	-	-	-	-
<b>Trinidad</b>				
Average Daily Production				
Light and Medium Oil (\$/bbl)	342	305	359	340
Natural Gas (\$/mcf)	11.63	11.46	13.27	13.13
Natural Gas Liquids (\$/bbl)	-	-	-	-
Average Net Prices Received				
Light and Medium Oil (\$/bbl)	42.44	38.10	36.07	36.58
Natural Gas (\$/mcf)	1.69	1.52	1.52	1.56
Natural Gas Liquids (\$/bbl)	-	-	-	-
Royalties				
Light and Medium Oil (\$/bbl)	5.14	3.29	5.50	4.73
Natural Gas (\$/mcf)	0.19	0.16	0.13	0.14
Natural Gas Liquids (\$/bbl)	-	-	-	-
Production Costs				
Light and Medium Oil (\$/bbl)	-	-	-	-
Natural Gas (\$/mcf)	0.36	0.73	0.56	0.43
Natural Gas Liquids (\$/bbl)	-	-	-	-
Netback Received				
Light and Medium Oil (\$/bbl)	37.30	34.81	30.57	31.85
Natural Gas (\$/mcf)	1.14	0.63	0.83	0.99
Natural Gas Liquids (\$/bbl)	-	-	-	-

## Marketing

Vermilion is party to certain financial instruments, such as crude oil and natural gas contracts and foreign currency forward contracts. Vermilion has entered into these contracts for hedging purposes only in order to protect its cash flow on future sales from the potential adverse impact of fluctuations in oil and gas prices and in the U.S./Canadian dollar exchange rate. The contracts reduce the fluctuations in sales revenues by establishing fixed prices or a trading range on a portion of its oil and gas sales. All of the future sales contracts described below are arranged with counter parties representing major financial (banking) institutions with AA to AAA credit ratings thereby reducing counter party credit risk exposure.

Contracts outstanding in respect of hedging transactions which Vermilion will assume are as follows:

OIL HEDGING	WTI		Brent	
Fixed Price Swaps	bbls/d	US\$/bbl	bbls/d	US\$/bbl
2004	2,250	24.35	2,250	22.93
2005	1,500	24.80	1,500	23.37

GAS HEDGING		Floor	Ceiling
Costless Collars	GJ/d	Cdn\$/GJ	Cdn\$/GJ
Q1 2004	19,148	4.99	8.70
Q2 2004	17,500	4.71	6.64
Q3 2004	17,500	4.71	6.64
Q4 2004	5,897	4.71	6.64
2004 Average	14,993	4.80	7.30

Vermilion has also put in place currency-conversion hedges for the Canadian-U.S. dollar of US\$2.7 million per month, covering the majority of its oil hedge position for 2004 at approximately US\$0.71 per Canadian dollar.

## ADDITIONAL INFORMATION RESPECTING VERMILION ENERGY TRUST

### Trust Units

An unlimited number of Trust Units may be created and issued pursuant to the Trust Indenture. Each Trust Unit shall entitle the holder thereof to one vote at any meeting of the holders of Trust Units and represents an equal fractional undivided beneficial interest in any distribution from the Trust (whether of net income, net realized capital gains or other amounts) and in any net assets of the Trust in the event of termination or winding-up of the Trust. All Trust Units outstanding from time to time shall be entitled to equal shares of any distributions by the Trust, and in the event of termination or winding-up of the Trust, in any net assets of the Trust. All Trust Units shall rank among themselves equally and rateably without discrimination, preference or priority. Each Trust Unit is transferable, subject to compliance with applicable Canadian securities laws, is not subject to any conversion or pre-emptive rights and entitles the holder thereof to require the Trust to redeem any or all of the Trust Units held by such holder (see "Redemption Right") and to one vote at all meetings of Unitholders for each Trust Unit held.

The Trust Units do not represent a traditional investment and should not be viewed by investors as "shares" in either Vermilion or the Trust. As holders of Trust Units in the Trust, the Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The price per Trust Unit will be a function of anticipated distributable income from Vermilion and the ability of Vermilion to effect long term growth in the value of the Trust. The market price of the Trust Units will be sensitive to a variety of market conditions including, but not limited to, interest rates, commodity prices and the ability of the Trust to acquire additional assets. Changes in market conditions may adversely affect the trading price of the Trust Units.

### **Special Voting Rights**

In order to allow the Trust flexibility in pursuing corporate acquisitions, the Trust Indenture allows for the creation of Special Voting Rights which will enable the Trust to provide voting rights to holders of Exchangeable Shares and, in the future, to holders of other exchangeable shares that may be issued by Vermilion or other subsidiaries of the Trust in connection with other exchangeable share transactions.

An unlimited number of Special Voting Rights may be created and issued pursuant to the Trust Indenture. Holders of Special Voting Rights shall not be entitled to any distributions of any nature whatsoever from the Trust and shall be entitled to attend at meetings of Unitholders and to such number of votes at meetings of Unitholders as may be prescribed by the board of directors of Vermilion in the resolution authorizing the issuance of any Special Voting Rights. Except for the right to attend and vote at meetings of the Unitholders, the Special Voting Rights shall not confer upon the holders thereof any other rights.

Under the terms of the Voting and Exchange Trust Agreement, the Trust has issued a Special Voting Right to the Voting and Exchange Trust Agreement Trustee for the benefit of every Person who holds Exchangeable Shares.

### **Unitholders Limited Liability**

The Trust Indenture provides that no Unitholder, in its capacity as such, shall incur or be subject to any liability in contract or in tort in connection with the Trust or its obligations or affairs and, in the event that a court determines Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of the Trust's assets. Pursuant to the Trust Indenture, the Trust will indemnify and hold harmless each Unitholder from any cost, damages, liabilities, expenses, charges or losses suffered by a Unitholder from or arising as a result of such Unitholder not having such limited liability.

The Trust Indenture provides that all contracts signed by or on behalf of the Trust must contain a provision to the effect that such obligation will not be binding upon Unitholders personally. Notwithstanding the terms of the Trust Indenture, Unitholders may not be protected from liabilities of the Trust to the same extent a shareholder is protected from the liabilities of a corporation. Personal liability may also arise in respect of claims against the Trust (to the extent that claims are not satisfied by the Trust) that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability to Unitholders of this nature arising is considered unlikely in view of the fact that the sole activity of the Trust is to hold securities, and all of the business operations are carried on by Vermilion, directly or indirectly.

The activities of the Trust and its subsidiary, Vermilion, will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability to the Unitholders for claims against the Trust including by obtaining appropriate insurance, where available, for the operations of Vermilion and having contracts signed by or on behalf of the Trust include a provision that such obligations are not binding upon Unitholders personally.

### **Issuance of Trust Units**

The Trust Indenture provides that Trust Units, including rights, warrants and other securities to purchase, to convert into or to exchange into Trust Units, may be created, issued, sold and delivered on such terms and conditions and at such times as the Trustee, upon the recommendation of the board of directors of Vermilion may determine. The Indenture also provides that Vermilion may authorize the creation and issuance of debentures, notes and other evidences of indebtedness of the Trust which debentures, notes or other evidences of indebtedness may be created and issued from time to time on such terms and conditions to such persons and for such consideration as Vermilion may determine.

### **Cash Distributions**

The Trustee may declare payable to the Unitholders all or any part of the net income of the Trust earned from interest income on the Notes, from the income generated under the Royalty Agreement and from any dividends paid on the common shares of Vermilion, less all expenses and liabilities of the Trust due and accrued and which are

chargeable to the net income of the Trust. In addition, Unitholders may, at the discretion of the board of directors of Vermilion, receive distributions in respect of prepayments of principal on the Notes made by Vermilion to the Trust before the maturity of the Notes. It is anticipated however, that the Trust may reinvest a portion of the repayments of principal on the Notes to make capital expenditures to develop the business of Vermilion with a view to enhancing Vermilion's cash flow from operations.

Cash distributions will be made on the 15th day of each month to Unitholders of record on the immediately preceding Distribution Record Date. Commencing February 2003, the Trust declared monthly distributions equal to \$0.17 per unit for a total of \$1.87 per unit.

### **Redemption Right**

Trust Units are redeemable at any time on demand by the holders thereof upon delivery to the Trust of the certificate or certificates representing such Trust Units, accompanied by a duly completed and properly executed notice requiring redemption. Upon receipt of the notice to redeem Trust Units by the Trust, the holder thereof shall only be entitled to receive a price per Trust Unit (the "Market Redemption Price") equal to the lesser of: (a) 90% of the "market price" of the Trust Units on the principal market on which the Trust Units are quoted for trading during the 10 trading day period commencing immediately after the date on which the Trust Units are tendered to the Trust for redemption; and (b) the closing market price on the principal market on which the Trust Units are quoted for trading on the date that the Trust Units are so tendered for redemption.

For the purposes of this calculation, "market price" will be an amount equal to the simple average of the closing price of the Trust Units for each of the trading days on which there was a closing price; provided that, if the applicable exchange or market does not provide a closing price but only provides the highest and lowest prices of the Trust Units traded on a particular day, the market price shall be an amount equal to the simple average of the average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the 10 trading days, the market price shall be the simple average of the following prices established for each of the 10 trading days: the average of the last bid and last ask prices for each day on which there was no trading; the closing price of the Trust Units for each day that there was trading if the exchange or market provides a closing price; and the average of the highest and lowest prices of the Trust Units for each day that there was trading, if the market provides only the highest and lowest prices of Trust Units traded on a particular day. The closing market price shall be: an amount equal to the closing price of the Trust Units if there was a trade on the date; an amount equal to the average of the highest and lowest prices of the Trust Units if there was trading and the exchange or other market provides only the highest and lowest prices of Trust Units traded on a particular day; and the average of the last bid and last ask prices if there was no trading on the date.

The Market Redemption Price payable by the Trust in respect of any Trust Units tendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the following month. The entitlement of Unitholders to receive cash upon the redemption of their Trust Units is subject to the limitation that the total amount payable by the Trust in respect of such Trust Units and all other Trust Units tendered for redemption in the same calendar month and in any preceding calendar month during the same year shall not exceed \$250,000 provided that, the Trust may, in its sole discretion, waive such limitation in respect of any calendar month. If this limitation is not so waived, the Market Redemption Price payable by the Trust in respect of Trust Units tendered for redemption in such calendar month shall be paid on the last day of the following month as follows: (a) firstly, by the Trust distributing Notes having an aggregate principal amount equal to the aggregate Market Redemption Price of the Trust Units tendered for redemption, and (b) secondly, to the extent that the Trust does not hold Notes having a sufficient principal amount outstanding to effect such payment, by the Trust issuing its own promissory notes to the Unitholders who exercised the right of redemption having an aggregate principal amount equal to any such shortfall, which promissory notes, (herein referred to as "Redemption Notes") shall have terms and conditions substantially identical to those of the Notes.

If at the time Trust Units are tendered for redemption by a Unitholders, the outstanding Trust Units are not listed for trading on the TSX and are not traded or quoted on any other stock exchange or market which Vermilion considers, in its sole discretion, provides representative fair market value price for the Trust Units or trading of the outstanding Trust Units is suspended or halted on any stock exchange on which the Trust Units are listed for trading or, if not so

listed, on any market on which the Trust Units are quoted for trading, on the date such Trust Units are tendered for redemption or for more than five trading days during the 10 trading day period, commencing immediately after the date such Trust Units were tendered for redemption then such Unitholders shall, instead of the Market Redemption Price, be entitled to receive a price per Trust Unit (the "Appraised Redemption Price") equal to 90% of the fair market value thereof as determined by Vermilion as at the date on which such Trust Units were tendered for redemption. The aggregate Appraised Redemption Price payable by the Trust in respect of Trust Units tendered for redemption in any calendar month shall be paid on the last day of the third following month by, at the option of the Trust: (a) a cash payment; or (b) a distribution of Notes and/or Redemption Notes as described above.

It is anticipated that this redemption right will not be the primary mechanism for holders of Trust Units to dispose of their Trust Units. Notes or Redemption Notes which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in such Notes or Redemption Notes. Notes and Redemption Notes may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans.

### **Non-Resident Unitholders**

It is in the best interest of Unitholders that the Trust qualify as a "unit trust" and a "mutual fund trust" under the Tax Act. Certain provisions of the Tax Act require that the Trust not be established nor maintained primarily for the benefit of Non-Residents. Accordingly, in order to comply with such provisions, the Trust Indenture contains restrictions on the ownership of Trust Units by Unitholders who are Non-Residents. In this regard, the Trust shall, among other things, take all necessary steps to monitor the ownership of the Trust Units to carry out such intentions. If at any time the Trust becomes aware that the beneficial owners of 50% or more of the Trust Units then outstanding are or may be Non-Residents or that such a situation is imminent, the Trust shall take such action as may be necessary to carry out such intentions.

### **Meetings of Unitholders**

The Trust Indenture provides that meetings of Unitholders must be called and held for, among other matters, the election or removal of the Trustee, the appointment or removal of the auditors of the Trust, the approval of amendments to the Trust Indenture (except as described under "Amendments to the Trust Indenture"), the sale of the property of the Trust as an entirety or substantially as an entirety, and the commencement of winding-up the affairs of the Trust. Meetings of Unitholders will be called and held annually for, among other things, the election of the directors of Vermilion and the appointment of the auditors of the Trust.

A meeting of Unitholders may be convened at any time and for any purpose by the Trustee and must be convened, except in certain circumstances, if requisitioned by the holders of not less than 5% of the Trust Units then outstanding by a written requisition. A requisition must, among other things, state in reasonable detail the business purpose for which the meeting is to be called.

Unitholders may attend and vote at all meetings of Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. Two persons present in person or represented by proxy and representing in the aggregate at least 5% of the votes attaching to all outstanding Trust Units shall constitute a quorum for the transaction of business at all such meetings. For the purposes of determining such quorum, the holders of any issued Special Voting Rights who are present at the meeting shall be regarded as representing outstanding Trust Units equivalent in number to the votes attaching to such Special Voting Rights.

The Trust Indenture contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders in accordance with the requirements of applicable laws.

### **Exercise of Voting Rights Attached to Shares of Vermilion**

The Trust Indenture prohibits the Trustee from voting the shares of Vermilion with respect to (a) the election of directors of Vermilion, (b) the appointment of auditors of Vermilion or (c) the approval of Vermilion's financial statements, except in accordance with an Ordinary Resolution adopted at an annual meeting of Unitholders.

The Trustee is also prohibited from voting the shares to authorize:

- (a) any sale, lease or other disposition of, or any interest in, all or substantially all of the assets of Vermilion, except in conjunction with an internal reorganization of the direct or indirect assets of Vermilion as a result of which either Vermilion or the Trust has the same interest, whether direct or indirect, in the assets as the interest, whether direct or indirect, that it had prior to the reorganization;
- (b) any statutory amalgamation of Vermilion with any other corporation, except in conjunction with an internal reorganization as referred to in paragraph (a) above;
- (c) any statutory arrangement involving Vermilion except in conjunction with an internal reorganization as referred to in paragraph (a) above;
- (d) any amendment to the articles of Vermilion to increase or decrease the minimum or maximum number of directors; or
- (e) any material amendment to the articles of Vermilion to change the authorized share capital or amend the rights, privileges, restrictions and conditions attaching to any class of Vermilion's shares in a manner which may be prejudicial to the Trust;

without the approval of the Unitholders by Special Resolution at a meeting of Unitholders called for that purpose.

### **Trustee**

Computershare Trust Company of Canada is the initial trustee of the Trust. The Trustee is responsible for, among other things, accepting subscriptions for Trust Units and issuing Trust Units pursuant thereto and maintaining the books and records of the Trust and providing timely reports to holders of Trust Units. The Trust Indenture provides that the Trustee shall exercise its powers and carry out its functions thereunder as Trustee honestly, in good faith and in the best interests of the Trust and, in connection therewith, shall exercise that degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances.

The initial term of the Trustee's appointment is until the third annual meeting of Unitholders. The Unitholders shall, at the third annual meeting of the Unitholders, re-appoint, or appoint a successor to the Trustee for an additional three year term, and thereafter, the Unitholders shall reappoint or appoint a successor to the Trustee at the annual meeting of Unitholders three years following the reappointment or appointment of the successor to the Trust. The Trustee may also be removed by Special Resolution of the Unitholders. Such resignation or removal becomes effective upon the acceptance or appointment of a successor trustee.

### **Delegation of Authority, Administration and Trust Governance**

The board of directors of Vermilion has generally been delegated the significant management decisions of the Trust. In particular, the Trustee has delegated to Vermilion responsibility for any and all matters relating to the following: (a) an Offering; (b) ensuring compliance with all applicable laws, including in relation to an Offering; (c) all matters relating to the content of any Offering Documents, the accuracy of the disclosure contained therein, and the certification thereof; (d) all matters concerning the terms of, and amendment from time to time of the material contracts of the Trust; (e) all matters concerning any underwriting or agency agreement providing for the sale of Trust Units or rights to Trust Units; (f) all matters relating to the redemption of Trust Units; (g) all matters relating to the voting rights on any investments in the Trust Fund or any Subsequent Investments; and (h) all matters relating to the specific powers and authorities as set forth in the Trust Indenture.

### **Liability of the Trustee**

The Trustee, its directors, officers, employees, shareholders and agents and all of their successors and assigns shall not be liable to any Unitholders or any other person, in tort, contract or otherwise, in connection with any matter pertaining to the Trust or the property of the Trust, arising from the exercise by the Trustee of any powers,

authorities or discretion conferred under the Trust Indenture, including, without limitation, any action taken or not taken in good faith in reliance on any documents that are, prima facie properly executed, any depreciation of, or loss to, the property of the Trust incurred by reason of the sale of any asset, any inaccuracy in any evaluation provided by any other appropriately qualified person, any reliance on any such evaluation, any action or failure to act of Vermilion, or any other person to whom the Trustee has, with the consent of Vermilion, delegated any of its duties hereunder, or any other action or failure to act (including failure to compel in any way any former trustee to redress any breach of trust or any failure by Vermilion to perform its duties under or delegated to it under the Trust Indenture or any other contract), unless such liabilities arise out of the gross negligence, wilful default or fraud of the Trustee or any of its directors, officers, employees or shareholders. If the Trustee has retained an appropriate expert, adviser or legal counsel with respect to any matter connected with its duties under the Trust Indenture, the Trustee may act or refuse to act based on the advice of such expert, adviser or legal counsel, and the Trustee shall not be liable for and shall be fully protected from any loss or liability occasioned by any action or refusal to act based on the advice of any such expert, adviser or legal counsel. In the exercise of the powers, authorities or discretion conferred upon the Trustee under the Trust Indenture, the Trustee is and shall be conclusively deemed to be acting as Trustee of the assets of the Trust and shall not be subject to any personal liability for any debts, liabilities, obligations, claims, demands, judgments, costs, charges or expenses against or with respect to the Trust or the property of the Trust Fund. In addition, the Trust Indenture contains other customary provisions limiting the liability of the Trustee.

### **Amendments to the Trust Indenture**

The Trust Indenture may be amended or altered from time to time by Special Resolution.

The Trustee may, without the approval of any of the Unitholders, amend the Trust Indenture for the purpose of:

- (a) ensuring the Trust's continuing compliance with applicable laws or requirements of any governmental agency or authority of Canada or of any province;
- (b) ensuring that the Trust will satisfy the provisions of each of subsections 108(2) and 132(6) of the Tax Act as from time to time amended or replaced;
- (c) ensuring that such additional protection is provided for the interests of Unitholders as the Trustee may consider expedient;
- (d) removing or curing any conflicts or inconsistencies between the provisions of the Trust Indenture or any supplemental indenture and any other agreement of the Trust or any offering document pursuant to which securities of the Trust are issued with respect to the Trust, or any applicable law or regulation of any jurisdiction, provided that in the opinion of the Trustee the rights of the Trustee and of the Unitholders are not prejudiced thereby; or
- (e) curing, correcting or rectifying any ambiguities, defective or inconsistent provisions, errors, mistakes or omissions, provided that in the opinion of the Trustee the rights of the Trustee and of the Unitholders are not prejudiced thereby.

### **Takeover Bid**

The Trust Indenture contains provisions to the effect that if a takeover bid is made for the Trust Units and not less than 90% of the Trust Units (other than Trust Units held at the date of the takeover bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Trust Units held by Unitholders who did not accept the takeover bid, on the terms offered by the offeror.

### **Termination of the Trust**

The Unitholders may vote to terminate the Trust at any meeting of the Unitholders duly called for that purpose, subject to the following: (a) a vote may only be held if requested in writing by the holders of not less than 20% of



the outstanding Trust Units; (b) a quorum of 50% of the issued and outstanding Trust Units is present in person or by proxy; and (c) the termination must be approved by Special Resolution of Unitholders.

Unless the Trust is earlier terminated or extended by vote of the Unitholders, the Trustee shall commence to wind-up the affairs of the Trust on December 31, 2009. In the event that the Trust is wound-up, the Trustee will sell and convert into money the property of the Trust in one transaction or in a series of transactions at public or private sale and do all other acts appropriate to liquidate the property of the Trust, and shall in all respects act in accordance with the directions, if any, of the Unitholders in respect of termination authorized pursuant to the Special Resolution authorizing the termination of the Trust. Notwithstanding anything herein contained, in no event shall the Trust be wound up until the Royalty shall have been disposed of, and under no circumstances shall any Unitholder come into any possession of any interest in the Royalty. After paying, retiring or discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Trust and providing for indemnity against any other outstanding liabilities and obligations, the Trustee shall distribute the remaining part of the proceeds of the sale of the assets together with any cash forming part of the property of the Trust among the Unitholders in accordance with their Pro Rata Share.

### **Reporting to Unitholders**

The financial statements of the Trust are audited annually by an independent recognized firm of chartered accountants. The audited financial statements of the Trust, together with the report of such chartered accountants, are mailed by the Trustee to Unitholders and the unaudited interim financial statements of the Trust are mailed to Unitholders as prescribed by applicable securities legislation. The year end of the Trust is December 31.

The Trust is subject to the continuous disclosure obligations under all applicable securities legislation.

### **Distribution Reinvestment and Optional Trust Unit Purchase Plan**

The Trust has established the DRIP Plan. The DRIP Plan is only available to Unitholders who are residents of Canada.

Under the DRIP Plan, Unitholders may, at their option, reinvest their cash distributions to purchase additional Trust Units (the "DRIP Units") by directing the Plan Agent (as defined below) to apply Distributions on their existing Trust Units to the purchase of DRIP Units or by making optional cash payments (the "Cash Payment Option"). Computershare Trust Company of Canada in its capacity as plan agent (the "Plan Agent") will apply Cash Distributions towards the purchase of DRIP Units from the Trust, subject to certain limitations either from treasury or at the discretion of Vermilion through the facilities of the TSX. Drip Units will be acquired either at the average market price at which DRIP Units are acquired through the facilities of the TSX or from treasury based on the weighted average of the previous 10 days of trading prior to the applicable Distribution. Under the Cash Payment Option, a Unitholder may, through the Plan Agent purchase additional DRIP Units having a value of up to \$5,000 per month. Participants in the DRIP Plan will also receive additional distributions of Trust Units equal to 5% of the DRIP Units purchased with their Distributions or under the Cash Payment Option, as applicable (the "Bonus Units under the DRIP Plan"). The aggregate number of DRIP Units that may be issued under the Cash Payment Option in any fiscal year of the Trust will be limited to 2% of the number of Trust Units issued and outstanding at the start of such fiscal year. Participants will not have to pay any brokerage fees or service charges in connection with the purchase of DRIP Units.

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

## **Unitholder Rights Plan**

Pursuant to the Unitholder Rights Plan Agreement, the Trust has put in place a unitholder rights plan. The previous shareholder rights plan of Vermilion was terminated under the Arrangement.

The following description of the Unitholder Rights Plan is qualified in its entirety by reference to the full text of the Unitholder Rights Plan agreement, a copy of which is available on request at the head office of Vermilion during normal business hours.

### ***Purpose***

The purpose of the Unitholder Rights Plan is to afford both the Unitholders and Vermilion sufficient time to evaluate and respond to an unsolicited offer made for the Trust Units. Further, the Unitholder Rights Plan is intended to assist in ensuring that all Unitholders have an equal opportunity to participate in any takeover bid.

Vermilion is not aware of any interest by any third party in acquiring control of Vermilion at this time.

### ***Background***

Under current provincial securities legislation, a takeover bid would generally involve an offer to acquire the Trust Units of the Trust where the Trust Units subject to the offer to acquire, together with Trust Units already owned by the bidder and certain related parties, aggregate 20% or more of the outstanding Trust Units. Current legislation only requires that a takeover bid remain open for acceptance for not less than 35 days and that any securities deposited may be withdrawn only during the 10 days following the date of the bid. In addition, such legislation does not require that a bid be made for all securities of a particular class and the bidder may in a single transaction or series of transactions acquire control of an entity pursuant to one or more private agreements at a permissible premium to the then current market price, without an offer being required to be made to all other securityholders of the entity. In addition, the bidder may make "creeping acquisitions" of securities by slowly accumulating shares through stock exchange transactions which may result, over time, in the acquisition of control without the payment of fair value for control of the entity or the sharing of the control premium among all securityholders.

The Unitholder Rights Plan is designed to encourage any bidder to provide all Unitholders with equal treatment in a takeover and full value for their investment in the Trust Units of the Trust.

### ***Summary of the Unitholder Rights Plan***

The following is a summary of the principal terms of the Unitholder Rights Plan which is qualified in its entirety by the actual text of the Unitholder Rights Plan agreement.

#### Issue of Rights

On the Effective Date, one right (a "Right") shall be issued and attached to each of the outstanding Trust Units and will attach to each Trust Unit of the Trust that is subsequently issued. Initially, certificates representing Trust Units of the Trust also represent the Rights.

#### Rights Exercise Privilege

The Rights will separate from the Trust Units of the Trust and will be exercisable, subject to action by Vermilion, 10 trading days (the "Separation Time") after a person has acquired, or commences a takeover bid to acquire, 20% or more of the Trust Units, other than by an acquisition pursuant to a takeover bid permitted by the Unitholders Rights Plan (a "Permitted Bid"). The acquisition by any person (an "Acquiring Person") of 20% or more of the Trust Units, other than by way of a Permitted Bid, is referred to as a "Flip-in Event". Any Rights held by an Acquiring Person will become void upon the occurrence of a Flip-in Event. In the absence of action by Vermilion and 10 days after the occurrence of a Flip-in Event, each Right (other than those held by the Acquiring Person), will permit the purchase of that number of Trust Units having an aggregate market price (as defined in the Unitholders Rights Plan)

equal to twice the exercise price for an amount in cash equal to the exercise price (which the Unitholders Rights Plan currently sets at \$35).

The issue of the Rights is not initially dilutive. However, holders of Rights not exercising their Rights upon the occurrence of a Flip-in Event may suffer substantial dilution.

#### Certificates and Transferability

After the Separation Time, the Rights will be evidenced by Rights certificates which will be transferable and traded separately from the Trust Units of the Trust.

#### Permitted Bid Requirements

The requirements for a Permitted Bid include the following:

- (a) the takeover bid must be made for all Units to all holders of Trust Units, other than the Acquiring Person and provide that, subject to the conditions of the Takeover Bid, the Offeror will take up and pay for all Units validly tendered without pro-rating;
- (b) the takeover bid must contain, and the take-up and payment for securities tendered or deposited is subject to, an irrevocable and unqualified provision that no Trust Units will be taken up or paid for pursuant to any takeover bid prior to the close of business on the date which is not less than 45 days following the date of the takeover bid and only if at such date more than 50% of the Trust Units held by independent Unitholders shall have been deposited or tendered pursuant to the takeover bid and not withdrawn;
- (c) the takeover bid contains an irrevocable and unqualified provision that unless the takeover bid is withdrawn, Trust Units may be deposited pursuant to such takeover bid at any time during the period of time between the date of the takeover bid and the date on which Trust Units may be taken up and paid for and that any Trust Units deposited pursuant to the takeover bid may be withdrawn until taken up and paid for; and
- (d) the takeover bid must contain an irrevocable and unqualified provision that if, on the date on which Trust Units may be taken up and paid for, more than 50% of the Trust Units held by independent Unitholders shall have been deposited pursuant to the takeover bid and not withdrawn, the Acquiring Person will make a public announcement of that fact and the takeover bid will remain open for deposits and tenders of Trust Units for not less than 10 Business Days from the date of such public announcement.

The Unitholder Rights Plan allows for a competing Permitted Bid (a "Competing Permitted Bid") to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid (subject to certain exceptions).

#### Waiver and Redemption

Vermilion may, prior to a Flip-in Event, waive the dilutive effects of the Unitholder Rights Plan in respect of a particular Flip-in Event resulting from a takeover bid made by way of a takeover bid circular to all holders of the Trust Units of the Trust, in which event such waiver would be deemed also to be a waiver in respect of any other Flip-in Event occurring under a takeover bid made by way of a takeover bid circular to all holders of the Trust Units of the Trust prior to the expiry of the takeover bid in respect of which the waiver is granted. Vermilion may also waive the Unitholder Rights Plan in respect of a particular Flip-in Event that has occurred through inadvertence, provided that the Acquiring Person that inadvertently triggered such Flip-in Event reduces its beneficial holdings to less than 20% of the outstanding Trust Units of the Trust within 10 days or such other period as may be specified by Vermilion.

At any time prior to the occurrence of a Flip-in Event, Vermilion may at its option redeem all, but not less than all, of the outstanding Rights at a price of \$0.00001 per Right.

#### Grandfather Provisions

The Unitholder Rights Plan exempts from the definition of Acquiring Person any person who is the beneficial owner, as defined in the Unitholder Rights Plan, of more than 20% of the outstanding Trust Units determined as at the Effective Date provided that such person does not after the Effective Date become the beneficial owner of additional Trust Units constituting 1.0% or more of the outstanding Trust Units of the Trust other than pursuant to a Permitted Bid, a Competing Permitted Bid or certain other exempt provisions.

### **ADDITIONAL INFORMATION RESPECTING VERMILION RESOURCES LTD.**

#### **Management of Vermilion**

Vermilion has a board of directors currently consisting of five individuals. The directors are elected by the Trust at the direction of Unitholders by ordinary resolution, and hold office until the next annual meeting of the Trust, which is anticipated to be held in May 18, 2004.

As at March 31, 2004, the directors and officers of Vermilion, as a group, beneficially owned, directly or indirectly, 2,472,732 Trust Units representing approximately 4.1% of the issued and outstanding Trust Units, as well as an aggregate of 4,488,951 Exchangeable Shares. Assuming all Exchangeable Shares were exchanged for Trust Units, using the Exchange Ratio of 1.16656, the directors and executive officers would hold 7,709,363 Trust Units, representing 11.8% of then issued and outstanding Trust Units.

The following table sets forth certain information respecting the directors and officers of Vermilion.

<b>Name and Municipality of Residence</b>	<b>Office Held</b>	<b>Date First Elected or Appointed as Director</b>	<b>Principal Occupation During the Past Five Years</b>
Lorenzo Donadeo Calgary, Alberta	President and Chief Executive Officer and Director	1994	Since January 2003, President and Chief Executive Officer of Vermilion; Vice President and Chief Operating Officer of Vermilion from December 2000 to January 2003; since February, 1995, Executive Vice President of Vermilion.
Claudio Gherinich Calgary, Alberta	Executive Vice President, Business Development and Director	1994	Since January 2003, Executive Vice President, Business Development of Vermilion; Executive Vice President, New Ventures of Vermilion from December 2000 to January 2003; since February, 1995, Executive Vice President of Vermilion.
Jeffrey Boyce <sup>(1)(2)(3)(4)</sup> Calgary, Alberta	Director	1994	Since January 2003, President and Chief Executive Officer of Clear Energy Inc., an oil and gas company; President, Chief Executive Officer of Vermilion from 1994 to January 2003.
Joseph Killi <sup>(1)(3)</sup> Calgary, Alberta	Director	1999	President of Rosebridge Capital Corp Inc., a real estate investment and advisory company.

<b>Name and Municipality of Residence</b>	<b>Office Held</b>	<b>Date First Elected or Appointed as Director</b>	<b>Principal Occupation During the Past Five Years</b>
Larry Macdonald <sup>(1)(2)(3)(4)(5)</sup> Calgary, Alberta	Director	2002	Chief Executive Officer, Point Energy Inc., an oil and gas company, from 2003 to present; Chairman and Chief Executive Officer, Pointwest Energy Inc. from 2000 to 2003; President and Chief Operating Officer, Anderson Exploration Ltd., from 1992 to 1999.
Curtis Hicks Calgary, Alberta	Vice President, Finance and Chief Financial Officer	-	Since March 2003 Vice President, Finance and Chief Financial Officer of Vermilion; Vice President Finance and Chief Financial Officer of NAL Oil & Gas Trust from November 2000 to February 2003; Chief Executive Officer, Caravan Oil & Gas Ltd. from August 1998 to November 2000.
Doug Reynolds Calgary, Alberta	Vice President, Land	-	Since April 2002, Vice President, Land of Vermilion; from February 2000 to April 2002, Senior Landman and Land Manager for Foothills N.E. B.C. and Hamburg Areas at Burlington Resources Canada Ltd.; from October 1998 to February 2000, Senior Landman on the East Coast for ExxonMobil Canada Energy; from October 1997 to January 2000, Petroleum Land Consultant for various corporations.
Raj Patel Calgary, Alberta	Vice President, Marketing	-	Since January 2001, Vice President, Marketing of Vermilion; from September 1996 to December 2000, President of Access Energy Management.
Paul Weevers Calgary, Alberta	Vice President, Production	-	Since May 2002, Vice President, Production of Vermilion; from May 2001 to May 2002, Manager South Production at Apache Canada Ltd. and from January 2001 to May 2001 Reservoir Engineer for Apache Canada Ltd.; Vice President, Production for Cabre Exploration Ltd. from February 2000 to January 2001; Independent Engineering Consultant from December 1998 to February 2000.
Daniel Goulet Biscarosse, France	Dirécteur General of Vermillion REP S.A.	-	Since February 2003 Dirécteur General of Vermillion REP S.A.; Production and Engineering Manager of Vermillion REP S.A. from August 2000 to January 2003; In-Country Operations Manager for PanAfrican Energy from 1997 to 2000.

<b>Name and Municipality of Residence</b>	<b>Office Held</b>	<b>Date First Elected or Appointed as Director</b>	<b>Principal Occupation During the Past Five Years</b>
Charles Berard Calgary, Alberta	Corporate Secretary	-	Partner at Macleod Dixon LLP, Barristers & Solicitors.

**Notes:**

- (1) Member of the Audit Committee
- (2) Member of the Health, Safety and Environment Committee
- (3) Member of the Governance and Human Resources Committee
- (4) Member of the Independent Reserves Committee
- (5) Lead Director

**Vermilion Share Capital**

Vermilion is authorized to issue an unlimited number of common shares and an unlimited number of exchangeable shares issuable in series, of which an unlimited number of Series A Exchangeable Shares are authorized. The Trust is the sole holder of the issued and outstanding shares of Vermilion, other than the Exchangeable Shares.

***Common Shares***

Each common share will entitle its holder to receive notice of and to attend all meetings of the shareholders of Vermilion and to one vote at such meetings. The holders of common shares will be, at the discretion of the board of directors of Vermilion and subject to applicable legal restrictions, and subject to certain preferences of holders of Exchangeable Shares, entitled to receive any dividends declared by the board of directors on the common shares to the exclusion of the holders of Exchangeable Shares, subject to the proviso that no dividends shall be paid on the common shares unless all declared dividends on the outstanding Exchangeable Shares have been paid in full. The holders of common shares will be entitled to share equally in any distribution of the assets of Vermilion upon the liquidation, dissolution, bankruptcy or winding-up of Vermilion or other distribution of its assets among its shareholders for the purpose of winding-up its affairs. Such participation is subject to the rights, privileges, restrictions and conditions attaching to the Exchangeable Shares and any other shares having priority over the common shares.

***Exchangeable Shares***

Each Exchangeable Share will have economic rights (including the right to have the Exchange Ratio adjusted to account for distributions paid to Unitholders) and voting attributes (through the benefit of the Special Voting Right granted to the Voting and Exchange Trust Agreement Trustee) as set forth in the Exchangeable Share Provisions. In addition, holders of Exchangeable Shares will have the right to receive Trust Units at any time in exchange for their Exchangeable Shares, on the basis of the Exchange Ratio in effect at the time of the exchange. Fractional Trust Units will not be delivered on any exchange of Exchangeable Shares and the Voting and Exchange Trust Agreement. In the event that the Exchange Ratio in effect at the time of an exchange would otherwise entitle a holder of Exchangeable Shares to a fractional Trust Unit, the number of Trust Units to be delivered will be rounded down to the nearest whole number of Trust Units. Holders of Exchangeable Shares will not receive cash distributions from the Trust. Rather, the Exchange Ratio will be adjusted to account for distributions paid to Unitholders in the manner described below. Holders of Exchangeable Shares may receive dividends from Vermilion at the discretion of the directors of Vermilion.

The initial Exchange Ratio upon the completion of the Arrangement was equal to one. On each Distribution Payment Date, the Exchange Ratio will be increased, on a cumulative basis, in respect of the Distribution on such date by an amount which assumes the reinvestment of such Distribution in Trust Units at the then-prevailing Current Market Price of a Trust Unit. The Exchange Ratio will be decreased in respect of any dividends paid on the Exchangeable Shares by an amount of such dividend divided by the then-prevailing Current Market Price of a Trust Unit.

### Ranking

The Exchangeable Shares will rank rateably with shares of any other series of exchangeable shares of Vermilion and prior to any common shares of Vermilion and any other shares ranking junior to the Exchangeable Shares with respect to the payment of dividends, if any, that have been declared and the distribution of assets in the event of the liquidation, dissolution or winding-up of Vermilion.

### Dividends

Holders of Exchangeable Shares will be entitled to receive cash dividends if, as and when declared by the board of directors of Vermilion. Vermilion anticipates that it may from time to time declare dividends on the Exchangeable Shares up to but not exceeding any cash distributions on the Trust Units into which such Exchangeable Shares are exchangeable. In the event that any such dividends are paid, the Exchange Ratio will be correspondingly reduced to reflect such dividends.

### Certain Restrictions

Vermilion will not, without obtaining the approval of the holders of the Exchangeable Shares as set forth below under the subheading "Amendment and Approval":

- (a) pay any dividend on the common shares or any other shares ranking junior to the Exchangeable Shares, other than stock dividends payable in common shares or any other shares ranking junior to the Exchangeable Shares;
- (b) redeem, purchase or make any capital distribution in respect of the common shares or any other shares ranking junior to the Exchangeable Shares;
- (c) redeem or purchase any other shares of Vermilion ranking equally with the Exchangeable Shares with respect to the payment of dividends or on any liquidation distribution; or
- (d) amend the articles or by-laws of Vermilion in any manner that would affect the rights or privileges of the holders of Exchangeable Shares.

The above restrictions in (a), (b) and (c) shall not apply if all declared dividends on the outstanding Exchangeable Shares shall have been paid in full.

### Liquidation or Insolvency of Vermilion

In the event of the liquidation, dissolution or winding-up of Vermilion or any other proposed distribution of the assets of Vermilion among its shareholders for the purpose of winding up its affairs, a holder of Exchangeable Shares will be entitled to receive from Vermilion, in respect of each such Exchangeable Share, that number of Trust Units equal to the Exchange Ratio as at the effective date of such event.

Upon the occurrence of such an event, the Trust and Trust Subsidiary will each have the overriding right to purchase all but not less than all of the Exchangeable Shares then outstanding (other than Exchangeable Shares held by the Trust or any subsidiary of the Trust) at a purchase price per Exchangeable Share to be satisfied by the issuance or delivery, as the case may be, of that number of Trust Units equal to the Exchange Ratio at such time and, upon the exercise of this right, the holders thereof will be obligated to sell such Exchangeable Shares to the Trust or Trust Subsidiary, as applicable. This right may be exercised by either the Trust or Trust Subsidiary.

Upon the occurrence of an Insolvency Event, the Voting and Exchange Trust Agreement Trustee on behalf of the holders of the Exchangeable Shares will have the right to require the Trust or Trust Subsidiary to purchase any or all of the Exchangeable Shares then outstanding and held by such holders at a purchase price per Exchangeable Share to be satisfied by the issuance or delivery, as the case may be, of that number of Trust Units equal to the Exchange Ratio at such time, as described under the subheading "Voting and Exchange Trust Agreement- Optional Exchange Right".

### Automatic Exchange Right on Liquidation of the Trust

The Voting and Exchange Trust Agreement provides that in the event of a Trust liquidation event, as described below, the Trust or Trust Subsidiary will be deemed to have purchased all outstanding Exchangeable Shares and each holder of Exchangeable Shares will be deemed to have sold their Exchangeable Shares immediately prior to such Trust liquidation event at a purchase price per Exchangeable Share to be satisfied by the issuance or delivery, as the case may be, of that number of Trust Units equal to the Exchange Ratio at such time. "Trust liquidation event" means:

- (a) any determination by the Trust to institute voluntary liquidation, dissolution or winding-up proceedings in respect of the Trust or to effect any other distribution of assets of the Trust among the Unitholders for the purpose of winding up its affairs; or
- (b) the earlier of, the Trust's receiving notice of and the Trust's otherwise becoming aware of, any threatened or instituted claim, suit, petition or other proceedings with respect to the involuntary liquidation, dissolution or winding up of the Trust or to effect any other distribution of assets of the Trust among the Unitholders for the purpose of winding up its affairs in each case where the Trust has failed to contest in good faith such proceeding within 30 days of becoming aware thereof.

### Retraction of Exchangeable Shares by Holders and Retraction Call Right

Subject to the Retraction Call Right of the Trust and Trust Subsidiary described below, a holder of Exchangeable Shares will be entitled at any time to require Vermilion to redeem any or all of the Exchangeable Shares held by such holder for a retraction price (the "Retraction Price") per Exchangeable Share equal to the value of that number of Trust Units equal to the Exchange Ratio as at the date of redemption (the "Retraction Date"), to be satisfied by the delivery of such number of Trust Units. Fractional Trust Units will not be delivered. Any amount payable on account of the Retraction Price that includes a fractional Trust Unit will be rounded down to the nearest whole number of Trust Units. Holders of the Exchangeable Shares may request redemption by presenting to Vermilion or the transfer agent for the Exchangeable Shares a certificate or certificates representing the number of Exchangeable Shares the holder desires to have redeemed, together with a duly executed retraction request and such other documents as may be reasonably required to effect the redemption of the Exchangeable Shares. Subject to extension as described below, the redemption will become effective on the Retraction Date, which will be seven business days after the date on which Vermilion or the transfer agent receives the retraction notice. Unless otherwise requested by the holder and agreed to by Vermilion, the Retraction Date will not occur on such seventh business day if such day would occur between any Distribution Record Date and the Distribution Payment Date that corresponds to such Distribution Record Date. In this case, the Retraction Date will instead occur on such Distribution Payment Date. The reason for this is to ensure that the Exchange Ratio used in connection with such redemption is increased to account for the Distribution.

When a holder requests Vermilion to redeem the Exchangeable Shares, the Trust and Trust Subsidiary will have an overriding right (the "Retraction Call Right") to purchase on the Retraction Date all but not less than all of the Exchangeable Shares that the holder has requested Vermilion to redeem at a purchase price per Exchangeable Share equal to the Retraction Price, to be satisfied by the delivery of that number of Trust Units equal to the Exchange Ratio at such time. At the time of a Retraction Request by a holder of Exchangeable Shares, Vermilion will immediately notify the Trust and Trust Subsidiary. The Trust or Trust Subsidiary must then advise Vermilion within two business days as to whether the Retraction Call Right will be exercised. A holder may revoke his or her Retraction Request at any time prior to the close of business on the last business day immediately preceding the Retraction Date, in which case the holder's Exchangeable Shares will neither be purchased by the Trust or Trust Subsidiary nor be redeemed by Vermilion. If the holder does not revoke his or her Retraction Request, the Exchangeable Shares that the holder has requested Vermilion to redeem will on the Retraction Date be purchased by the Trust or Trust Subsidiary or redeemed by Vermilion, as the case may be, in each case at a purchase price per Exchangeable Share equal to the Retraction Price. In addition, a holder of Exchangeable Shares may elect to instruct the Voting and Exchange Trust Agreement Trustee to exercise the optional exchange right (the "Optional Exchange Right") to require the Trust or Trust Subsidiary to acquire such holder's Exchangeable Shares in



circumstances where neither the Trust nor Trust Subsidiary have exercised the Retraction Call Right. See "Voting and Exchange Trust Agreement-Optional Exchange Right".

The Retraction Call Right may be exercised by either the Trust or Trust Subsidiary. If, as a result of solvency provisions of applicable law, Vermilion is not permitted to redeem all Exchangeable Shares tendered by a retracting holder, Vermilion will redeem only those Exchangeable Shares tendered by the holder as would not be contrary to such provisions of applicable law. The holder of any Exchangeable Shares not redeemed by Vermilion will be deemed to have required the Trust to purchase such unretracted Exchangeable Shares in exchange for Trust Units on the Retraction Date pursuant to the Optional Exchange Right. See "Voting and Exchange Trust Agreement-Optional Exchange Right".

#### Redemption of Exchangeable Shares

Subject to applicable law and the Redemption Call Right of the Trust and Trust Subsidiary, Vermilion:

- (a) will, on the tenth anniversary of the Effective Date, subject to extension of such date by the board of directors of Vermilion (the "Automatic Redemption Date"), redeem all but not less than all of the then outstanding Exchangeable Shares for a redemption price per Exchangeable Share equal to the value of that number of Trust Units equal to the Exchange Ratio as at the last business day prior to that Redemption Date (as that term is defined below) (the "Redemption Price"), to be satisfied by the delivery of such number of Trust Units; and
- (b) may, at any time when the aggregate number of issued and outstanding Exchangeable Shares is less than 500,000 (other than Exchangeable Shares held by the Trust and its subsidiaries and as such shares may be adjusted from time to time) (the "De Minimus Redemption Date" and, collectively with the Automatic Redemption Date, a "Redemption Date"), redeem all but not less than all of the then outstanding Exchangeable Shares for the Redemption Price per Exchangeable Share (unless contested in good faith by the Trust).

Vermilion will, at least 45 days prior to any Redemption Date, provide the registered holders of the Exchangeable Shares with written notice of the prospective redemption of the Exchangeable Shares by Vermilion.

The Trust and Trust Subsidiary will have the right (the "Redemption Call Right"), notwithstanding a proposed redemption of the Exchangeable Shares by Vermilion on the applicable Redemption Date, pursuant to the Exchangeable Share Provisions, to purchase on any Redemption Date all but not less than all of the Exchangeable Shares then outstanding (other than Exchangeable Shares held by the Trust or its subsidiaries) in exchange for the Redemption Price per Exchangeable Share and, upon the exercise of the Redemption Call Right, the holders of all of the then outstanding Exchangeable Shares will be obliged to sell all such shares to the Trust or Trust Subsidiary, as applicable. If either the Trust or Trust Subsidiary exercises the Redemption Call Right, then Vermilion's right to redeem the Exchangeable Shares on the applicable Redemption Date will terminate. The Redemption Call Right may be exercised by either the Trust or Trust Subsidiary.

#### Voting Rights

Except as required by applicable law, the holders of the Exchangeable Shares are not entitled as such to receive notice of or attend any meeting of the shareholders of Vermilion or to vote at any such meeting. Holders of Exchangeable Shares will have the notice and voting rights respecting meetings of the Trust that are provided in the Voting and Exchange Trust Agreement. See "Voting and Exchange Trust Agreement - Voting Rights".

#### Amendment and Approval

The rights, privileges, restrictions and conditions attaching to the Exchangeable Shares may be changed only with the approval of the holders thereof. Any such approval or any other approval or consent to be given by the holders of the Exchangeable Shares will be sufficiently given if given in accordance with applicable law and subject to a minimum requirement that such approval or consent be evidenced by a resolution passed by not less than two-thirds of the votes cast thereon (other than shares beneficially owned by the Trust, or any of its subsidiaries and other

affiliates) at a meeting of the holders of the Exchangeable Shares duly called and held at which holders of at least 5% of the then outstanding Exchangeable Shares are present in person or represented by proxy. In the event that no such quorum is present at such meeting within one-half hour after the time appointed therefor, then the meeting will be adjourned to such place and time (not less than ten days later) as may be determined at the original meeting and the holders of Exchangeable Shares present in person or represented by proxy at the adjourned meeting will constitute a quorum thereat and may transact the business for which the meeting was originally called. At the adjourned meeting, a resolution passed by the affirmative vote of not less than two-thirds of the votes cast thereon (other than shares beneficially owned by the Trust or any of its subsidiaries and other affiliates) will constitute the approval or consent of the holders of the Exchangeable Shares.

#### Actions by the Trust under the Support Agreement and the Voting and Exchange Trust Agreement

Under the Exchangeable Share Provisions, Vermilion will agree to take all such actions and do all such things as are necessary or advisable to perform and comply with its obligations under, and to ensure the performance and compliance by the Trust with its obligations under, the Support Agreement and the Voting and Exchange Trust Agreement.

#### Non-Resident and Tax-Exempt Holders

Exchangeable Shares will not be issued to persons who are Non-Residents or who are exempt from tax under Part I of the Tax Act.

#### **Voting and Exchange Trust Agreement**

##### ***Voting Rights***

In accordance with the Voting and Exchange Trust Agreement, the Trust will issue a Special Voting Right to Computershare Trust Company of Canada, the Voting and Exchange Trust Agreement Trustee, for the benefit of the holders (other than the Trust and Trust Subsidiary) of the Exchangeable Shares. The Special Voting Right will carry a number of votes, exercisable at any meeting at which Unitholders are entitled to vote, equal to the number of Trust Units (rounded down to the nearest whole number) into which the Exchangeable Shares are then exchangeable multiplied by the number of votes to which the holder of one Trust Unit is then entitled. With respect to any written consent sought from the Unitholders, each vote attached to the Special Voting Right will be exercisable in the same manner as set forth above.

Each holder of an Exchangeable Share on the record date for any meeting at which Unitholders are entitled to vote will be entitled to instruct the Voting and Exchange Trust Agreement Trustee to exercise that number of votes attached to the Special Voting Right which relate to the Exchangeable Shares held by such holder. The Voting and Exchange Trust Agreement Trustee will exercise each vote attached to the Special Voting Right only as directed by the relevant holder and, in the absence of instructions from a holder as to voting, will not exercise such votes.

The Voting and Exchange Trust Agreement Trustee will send to the holders of the Exchangeable Shares the notice of each meeting at which the Unitholders are entitled to vote, together with the related meeting materials and a statement as to the manner in which the holder may instruct the Voting and Exchange Trust Agreement Trustee to exercise the votes attaching to the Special Voting Right, at the same time as the Trust sends such notice and materials to the Unitholders. The Voting and Exchange Trust Agreement Trustee will also send to the holders copies of all information statements, interim and annual financial statements, reports and other materials sent by the Trust to the Unitholders at the same time as such materials are sent to the Unitholders. To the extent such materials are provided to the Voting and Exchange Trust Agreement Trustee by the Trust, the Voting and Exchange Trust Agreement Trustee will also send to the holders all materials sent by third parties to Unitholders, including dissident proxy circulars and tender and exchange offer circulars, as soon as possible after such materials are first sent to Unitholders.

All rights of a holder of Exchangeable Shares to exercise votes attached to the Special Voting Right will cease upon the exchange of all such holder's Exchangeable Shares for Trust Units. With the exception of administrative changes for the purpose of adding covenants for the protection of the holders of the Exchangeable Shares, making

necessary amendments or curing ambiguities or clerical errors (in each case provided that the board of directors of Trust Subsidiary and Vermilion are of the opinion that such amendments are not prejudicial to the interests of the holders of the Exchangeable Shares), the Voting and Exchange Trust Agreement may not be amended without the approval of the holders of the Exchangeable Shares.

***Optional Exchange Right***

Upon the occurrence and during the continuance of:

- (c) an Insolvency Event; or
- (d) circumstances in which the Trust or Trust Subsidiary may exercise a Call Right, but elect not to exercise such Call Right;

a holder of Exchangeable Shares will be entitled to instruct the Trustee to exercise the Optional Exchange Right with respect to any or all of the Exchangeable Shares held by such holder, thereby requiring the Trust or Trust Subsidiary to purchase such Exchangeable Shares from the holder. Immediately upon the occurrence of (i) an Insolvency Event, (ii) any event which will, with the passage of time or the giving of notice, become an Insolvency Event, or (iii) the election by the Trust and Trust Subsidiary not to exercise a Call Right which is then exercisable by the Trust and Trust Subsidiary, Vermilion, the Trust or Trust Subsidiary will give notice thereof to the Trustee. As soon as practicable thereafter, the Trustee will then notify each affected holder of Exchangeable Shares (who has not already provided instructions respecting the exercise of the Optional Exchange Right) of such event or potential event and will advise such holder of its rights with respect to the Optional Exchange Right.

The purchase price payable by the Trust or Trust Subsidiary for each Exchangeable Share to be purchased under the Optional Exchange Right will be satisfied by the issuance of that number of Trust Units equal to the Exchange Ratio as at the last business day prior to the day of closing of the purchase and sale of such Exchangeable Share under the Exchange Right (the "Exchange Price").

If, as a result of solvency provisions of applicable law, Vermilion is unable to redeem all of a holder's Exchangeable Shares which such holder is entitled to have redeemed in accordance with the Exchangeable Share Provisions, the holder will be deemed to have exercised the Optional Exchange Right with respect to the unredeemed Exchangeable Shares and the Trust or Trust Subsidiary will be required to purchase such shares from the holder in the manner set forth above.

**Support Agreement**

***The Trust Support Obligation***

Under the Support Agreement, the Trust will agree that:

- (a) the Trust will take all actions and do all things necessary to ensure that Vermilion is able to pay to the holders of the Exchangeable Shares the Liquidation Amount in the event of a liquidation, dissolution or winding-up of Vermilion, the Retraction Price in the event of the giving of a Retraction Request by a holder of Exchangeable Shares, or the Redemption Price in the event of a redemption of Exchangeable Shares by Vermilion; and
- (b) the Trust will not vote or otherwise take any action or omit to take any action causing the liquidation, dissolution or winding-up of Vermilion.

The Support Agreement will also provide that the Trust will not issue or distribute to the holders of all or substantially all of the outstanding Trust Units:

- (a) additional Trust Units or securities convertible into Trust Units;
- (b) rights, options or warrants for the purchase of Trust Units; or

- (c) units or securities of the Trust other than Trust Units, evidences of indebtedness of the Trust or other assets of the Trust;

unless the same or an equivalent distribution is made to holders of Exchangeable Shares, an equivalent change is made to the Exchangeable Shares, or the approval of Vermilion and holders of Exchangeable Shares has been obtained.

In addition, the Trust may not subdivide, reduce, consolidate, reclassify or otherwise change the terms of the Trust Units unless an equivalent change is made to the Exchangeable Shares or the approval of the holders of Exchangeable Shares has been obtained.

In the event of any proposed takeover bid, or similar transaction affecting the Trust Units and supported by the Trust, the Trust will use reasonable efforts to take all actions necessary or desirable to enable holders of Exchangeable Shares to participate in such transaction to the same extent and on an economically equivalent basis as the Unitholders.

The Support Agreement also provides that, as long as any outstanding Exchangeable Shares are owned by any person or entity other than the Trust or any of its respective subsidiaries and other affiliates, the Trust will, unless approval to do otherwise is obtained from the holders of Exchangeable Shares, remain the direct or indirect beneficial owner collectively of more than 50% of all of the issued and outstanding voting securities of Vermilion, provided that the Trust will not be in violation of this obligation if a party acquires all or substantially all of the assets of the Trust. With the exception of administrative changes for the purpose of adding covenants for the protection of the holders of the Exchangeable Shares, making certain necessary amendments or curing ambiguities or clerical errors (in each case provided that the board of directors of Vermilion and the Trustee are of the opinion that such amendments are not prejudicial to the interests of the holders of the Exchangeable Shares), the Support Agreement may not be amended without the approval of the holders of the Exchangeable Shares.

Under the Support Agreement, the Trust will agree to not exercise any voting rights attached to the Exchangeable Shares owned by it or any of its subsidiaries and other affiliates on any matter considered at meetings of holders of Exchangeable Shares (including any approval sought from such holders in respect of matters arising under the Support Agreement).

### ***Delivery of Trust Units***

The Trust will agree to make such filings and seek such regulatory consents and approvals as are necessary so that the Trust Units issuable upon the exchange of Exchangeable Shares will be issued in compliance with applicable securities laws in Canada and may be traded freely on the TSX or such other exchange on which the Trust Units may be listed, quoted or posted for trading from time to time.

### **Notes**

The following summary of the material attributes and characteristics of the Notes does not purport to be complete and is qualified in its entirety by reference to the provisions of a note indenture (the "Note Indenture") dated January 16, 2003 and made between Vermilion Acquisition Ltd. (prior to its amalgamation with Vermilion under the Arrangement) and Computershare Trust Company of Canada, as trustee (the "Note Trustee"), which contains a complete statement of such attributes and characteristics. The Notes have been issued under the Note Indenture.

### ***Terms and Issue of Notes***

Pursuant to the Arrangement, Notes were issued to the Trust and to former holders of common shares and options of Vermilion. Notes issued to such former holders were transferred by such holders to the Trust in return for Trust Units. As a result, the Trust holds all of the issued and outstanding Notes.

The Notes are unsecured and bear interest from the date of issue at 13% per annum. Interest will be payable for each month during the term on the 15<sup>th</sup> day of the month following such month. The first interest payment will be due on March 15, 2003 for the period commencing on the Effective Date and ending on February 28, 2003.

Although pursuant to the terms of the Note Indenture Vermilion is permitted to make payments against the principal amount of the Notes outstanding from time to time without notice or bonus, Vermilion is not required to make any payment in respect of principal until December 31, 2028, subject to the terms of any secured financing and subject to extension in the limited circumstances provided in the Note Indenture.

In contemplation of the possibility that Notes may be distributed to Unitholders upon the redemption of their Trust Units, the Note Indenture provides that if persons other than the Trust (the "Non-Fund Holders") own Notes having an aggregate principal amount in excess of \$1,000,000, either the Trust or the Non-Fund Holders shall be entitled, among other things, to require the Note Trustee to exercise the powers and remedies available under the Note Indenture upon an event of default and, with the Trust, the Non-Fund Holders may provide consents, waivers or directions relating generally to the variance of the Note Indenture and the rights of noteholders. The Note Indenture will allow the Trust flexibility to delay payments of interest or principal otherwise due to it while payment is made to other noteholders, and to allow other noteholders to be paid out before the Trust. Any delayed payments will be due 5 days after demand.

Principal and interest on the Notes will be payable in lawful money of Canada directly to the holders of Notes at their address set forth in the register of holders of Notes.

### ***Ranking***

The Notes will be unsecured debt obligations of Vermilion and will rank *pari passu* with all other unsecured indebtedness of Vermilion, but subordinate to all secured debt.

### ***Events of Default***

The Note Indenture will provide that any of the following shall constitute an Event of Default: (a) default in payment of the principal of the Notes when required; (b) the failure to pay all of the interest obligations on the Notes for a period of three months; (c) if Vermilion has defaulted and a demand for payment has been made under any material instrument, indenture or document evidencing indebtedness of more than \$5 million and Vermilion has failed to remedy such default within applicable curative periods; (d) certain events of winding-up, liquidation, bankruptcy, insolvency, receivership or seizure; (e) default in the observance or performance of any other covenant or condition of the Note Indenture and continuance of such default for a period of 30 days after notice in writing has been given by the Note Trustee to Vermilion specifying such default and requiring Vermilion to rectify the same; (f) Vermilion ceasing to carry on its business; and (g) material default by Vermilion under material agreements if property is liable to forfeiture or termination.

### ***Royalty Agreement***

Coincident with the Arrangement becoming effective, the Partnership and the Trust entered into the Royalty Agreement pursuant to which the Partnership granted the Royalty to the Trust. As owner of the Royalty, the Trust is entitled to cash distributions of approximately 99% of the cash flow from all present and future oil and gas properties and related tangibles owned by the Partnership after certain costs, expenditures and deductions which include 99% of: (i) all amounts of interest and principal payable by Vermilion on account of or in respect of its credit facilities (ii) specified amounts of interest and principal payable by Vermilion on account of or in respect of its indebtedness to the Trust; (iii) the Partnership's share of operating costs and capital expenditures; (iv) amounts required to be paid to certain reserves; (v) general and administrative expenses; and (vi) acquisition costs of future oil and gas properties and related tangibles. Such cash distributions are to be paid on or about the 15th day of the second month following the month to which the distribution relates.

From time to time upon notice from the Partnership, the Trust has an obligation (the "Deferred Purchase Price Obligation") to pay the Partnership, as additional consideration for the Royalty, such portion of the acquisition cost of future oil and gas properties and capital expenditures including amounts borrowed by Vermilion to fund such costs and expenditures as may be designated by the Partnership. The Trust's obligation to pay amounts as a Deferred Purchase Price Obligation is subject to it having available funds from certain designated sources.

The Partnership is entitled to make farmouts or other similar dispositions of specific interests in any part of the properties subject to the Royalty, and upon the farmee or other participant earning its interest pursuant to the farmout or other disposition, the Royalty shall burden only the working interest retained by or reserved to the Partnership. Any net proceeds from the sale of properties subject to the Royalty (to the extent allocable to petroleum and natural gas rights) shall be allocated to the Trust as to 99%. The remaining 1% and all amounts allocated to tangibles and miscellaneous interests shall be allocated to the Partnership.

Under the Royalty Agreement, the Trust is obligated to reimburse the Partnership in respect of 99% of certain non-deductible crown royalties paid by the Partnership; and the Partnership shall be entitled to set off such amounts reimbursable to it against payments to the Trust on account of the Royalty.

The Royalty does not constitute an interest in land. Except upon the insolvency of the Partnership, the Trust is not entitled to take its share of production in kind or to separately sell or market its share of petroleum substances.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The Trust's Management's Discussion and Analysis relating to the Trust's consolidated financial statements for the fiscal years ended December 31, 2003 and 2002, which is contained on pages 25 to 39 of the Trust's 2003 annual report, is incorporated by reference.

### MARKET FOR, PRICE RANGE AND TRADING VOLUME OF SECURITIES

The outstanding Trust Units of the Trust are listed and posted for trading on the TSX under the symbol VET.UN. The following table sets forth the closing price range and trading volume of the Trust Units as reported by the TSX for the periods indicated:

<b>Period</b>	<b>High</b>	<b>Low</b>	<b>Volume (000's)</b>
<b>2003</b>			
First Quarter	\$12.85	\$11.20	40,097
Second Quarter	\$13.70	\$12.05	18,532
Third Quarter	\$15.25	\$13.50	15,585
Fourth Quarter	\$15.35	\$14.15	15,406,
<b>2004</b>			
January	\$16.79	\$15.34	7,705
February	\$17.90	\$15.85	6,491
March	\$18.46	\$17.86	5,398

### CONFLICTS OF INTEREST

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

As at the date hereof, neither the Trust nor Vermilion is aware of any existing or potential material conflicts of interest between the Trust and Vermilion and a director or officer of Vermilion.

### INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Neither the Trustee, Vermilion nor any director or officer of Vermilion, nor any other insider of the Trust, or Vermilion, nor any associate or affiliate of any one of them has or has had, at any time since the year ended

December 31, 2003, any material interest, direct or indirect, in any transaction or proposed transaction that has materially affected or would materially affect the Trust or Vermilion.

#### **LEGAL PROCEEDINGS**

The Trust is not party to any legal proceedings as of the date of this filing.

#### **MATERIAL CONTRACTS**

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

#### **INTERESTS OF EXPERTS**

As at the date hereof, the partners and associates of Deloitte & Touche LLP, the auditors of the Trust, as a group, did not beneficially own any of the outstanding Trust Units.

As at the date hereof, principals of GLJ, the independent engineers for the Trust, personally disclosed in certificates of qualification that they neither had nor expected to receive any of the outstanding Trust Units.

#### **TRANSFER AGENT AND REGISTRAR**

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

#### **RISK FACTORS**

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

##### **Reserve Estimates**

The reserve and recovery information contained in the GLJ Report is only an estimate and the actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by GLJ.

##### **Volatility of Oil and Natural Gas Prices**

The Trust's operational results and financial condition, will be dependent on the prices received by Vermilion for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions. Any decline in oil and natural gas prices could have an adverse effect on Vermilion's ability to satisfy its obligations under the Notes and on amounts, if any, payable by the Partnership to the Trust under the Royalty Agreement thereby decreasing the amount of Distributable Cash to be distributed to holders of Trust Units.

##### **Changes in Legislation**

There can be no assurance that income tax laws and government incentive programs relating to the oil and gas industry, such as the status of mutual fund trusts and the resource allowance, will not be changed in a manner which adversely affects Unitholders.

**Investment Eligibility**

If the Trust ceases to qualify as a mutual fund trust, the Trust Units will cease to be qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans ("Exempt Plans") which will have adverse tax consequences to Exempt Plans or their annuitants or beneficiaries. Notes or Redemption Notes acquired on a redemption of Trust Units may not be qualified investments for Exempt Plans.

**Operational Matters**

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

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

**Environmental Concerns**

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of Vermilion or its assets. Such legislation may be changed to impose higher standards and potentially more costly obligations on Vermilion. Although the Trust has established a reclamation fund for the purpose of funding its currently estimated future environmental and reclamation obligations based on its current knowledge, there can be no assurance that the Trust will be able to satisfy its actual future environmental and reclamation obligations.

**Kyoto Protocol**

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

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

Trinidad and Tobago is not an Annex B party to the Kyoto Protocol is therefore not required under the Kyoto Protocol to set legally binding targets to regulate greenhouse gas emissions.



**Debt Service**

Vermilion may, from time to time, finance a significant portion of its operations through debt (other than the Notes). Amounts paid in respect of interest and principal on debt incurred by Vermilion may impair Vermilion's ability to satisfy its obligations under the Notes or reduce the amount received by the Trust under the Royalty Agreement. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service before payment by Vermilion of its obligations under the Notes or the Royalty Agreement. Ultimately, this may result in lower levels of Distributable Cash for the Trust.

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

**Delay in Cash Distributions**

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

**Taxation of Vermilion**

Vermilion is subject to taxation in each taxation year on its income for the year, after deducting interest paid to the Trust pursuant to the Note Indenture and after deducting payments, if any, made to the Trust with respect to the Royalty Agreement. During the period that Exchangeable Shares issued by Vermilion are outstanding, a portion of the cash flow from operations will be subject to tax to the extent that there are not sufficient resource pool deductions, capital cost allowance or utilization of prior years non-capital losses to reduce taxable income to zero. Vermilion intends to deduct, in computing its income for tax purposes, the full amount available for deduction in each year associated with the income tax resource pools, undepreciated capital cost ("UCC") and non-capital losses carried forward from Vermilion, if any, plus resource pools and UCC created by capital expenditures of Vermilion. If there are not sufficient resource pools, UCC and non-capital losses carried forward or other deductions to shelter the income of Vermilion, then cash taxes may be payable by Vermilion. In addition, there can be no assurance that taxation authorities will not seek to challenge the amount of interest expense. If such a challenge were to succeed against Vermilion, it could materially adversely affect the amount of Distributable Cash available.

Further, interest on the Notes accrues at the Trust level for income tax purposes whether or not actually paid. The Trust Indenture provides that an amount equal to the taxable income of the Trust will be distributed each year to Unitholders in order to reduce the Trust's taxable income to zero. Where interest payments on the Notes are due but not paid in whole or in part, the Trust Indenture provides that any additional amount necessary to be distributed to Unitholders may be distributed in the form of Units rather than in cash. Unitholders will be required to include such additional amount in income even though they do not receive a cash distribution.

**Depletion of Reserves**

The Trust has certain unique attributes which differentiate it from other oil and gas industry participants. Distributions of Distributable Cash in respect of properties, absent commodity price increases or cost effective acquisition and development activities, will decline over time in a manner consistent with declining production from typical oil, natural gas and natural gas liquids reserves. Vermilion will not be reinvesting cash flow in the same manner as other industry participants. Accordingly, absent capital injections or acquisitions of additional oil and gas properties, Vermilion's initial production levels and reserves will decline.

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

**Net Asset Value**

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

**Return of Capital**

Trust Units will have no value when reserves from the underlying assets of the Trust can no longer be economically produced and, as a result, cash distributions do not represent a "yield" in the traditional sense as they represent both return of capital and return on investment.

**Nature of Trust Units**

The Trust Units do not represent a traditional investment in the oil and natural gas sector and should not be viewed by investors as shares in Vermilion. The Trust Units represent a fractional interest in the Trust. As holders of Trust Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Trust's sole assets will be its shares in Vermilion, the Notes, the Royalty Agreement and other investments in securities. The price per Trust Unit is a function of anticipated Distributable Cash, the underlying assets of the Trust and management's ability to effect long-term growth in the value of the Trust. The market price of the Trust Units will be sensitive to a variety of market conditions including, but not limited to, interest rates and the ability of the Trust to acquire suitable oil and natural gas properties. Changes in market conditions may adversely affect the trading price of the Trust Units.

The Trust Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Trust is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

**Unitholders Limited Liability**

The Trust Indenture provides that no Unitholders will be subject to any liability in connection with the Trust or its obligations and affairs and, in the event that a court determines Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of the Trust's assets. Pursuant to the Trust Indenture, the Trust will indemnify and hold harmless each Unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a Unitholder resulting from or arising out of such Unitholder not having such limited liability.

The Trust Indenture provides that all written instruments signed by or on behalf of the Trust must contain a provision to the effect that such obligation will not be binding upon Unitholders personally. Personal liability may also arise in respect of claims against the Trust that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely.

The operations of the Trust will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability on the Unitholders for claims against the Trust.

**Accounting Write-Downs as a Result of GAAP**

Canadian Generally Accepted Accounting Principles ("GAAP") require that management apply certain accounting policies and make certain estimates and assumptions which affect reported amounts in the consolidated financial statements of the Trust. The accounting policies may result in non-cash charges to net income and write-downs of net assets in the financial statements. Such non-cash charges and write-downs may be viewed unfavourably by the capital markets and result in an inability to borrow funds and/or may result in a decline in the Trust Unit price.

Emerging GAAP surrounding hedge accounting may result in non-cash charges against net income as a result of changes in the fair market value of hedging instruments. A decrease in the fair market value of the hedging instruments as the result of fluctuations in commodity prices and foreign exchange rates may result in a write-down of net assets and a non-cash charge against net income. Such write-downs and non-cash charges may be temporary in nature if the fair market value subsequently increases.

### **Variations in Interest Rates and Foreign Exchange Rates**

Variations in interest rates could result in a significant change in the amount the Trust pays to service debt, potentially impacting distributions to Unitholders.

In addition, the exchange rate for the Canadian dollar versus the U.S. dollar has increased significantly over the last 12 months, resulting in the receipt by the Trust of fewer Canadian dollars for its production which may affect future distributions. VRL has initiated certain hedges to mitigate these risks. The increase in the exchange rate for the Canadian dollar and future Canadian/United States exchange rates may impact future distributions and the future value of the Trust's reserves as determined by independent evaluators.

### **Mutual Fund Trust Status**

It is intended that the Trust continue to qualify as a mutual fund trust for the purposes of the Income Tax Act (Canada) (the "Tax Act"). The Trust may not, however, always be able to satisfy any future requirement for the maintenance of mutual fund trust status. Should the status of the Trust as a mutual fund trust be lost or successfully challenged by a relevant tax authority, certain adverse consequences may arise for the Trust and Unitholders. Some of the significant consequences of losing mutual fund trust status are as follows:

- By virtue of its status as a mutual fund trust, the Trust has been accepted for registration as a "registered investment" for registered retirement savings plans ("RRSPs"), registered retirement income funds ("RRIFs"), and deferred profit sharing plans (collectively, "Exempt Plans"). As such, Trust Units are qualified investments for Exempt Plans as well as registered education savings plans ("RESPs") and if the Trust's status as a "registered investment" is revoked in any year by virtue of ceasing to be a "mutual fund trust" the Trust Units would remain as qualified investments for Exempt Plans and RESPs until the end of the year following such year.
- Where at the end of any month an Exempt Plan or a RESP holds Trust Units that are not qualified investments, the Exempt Plan or RESP must, in respect of that month, pay a tax under Part XI.1 of the Tax Act equal to 1 percent of the fair market value of the Trust Units at the time such Trust Units were acquired by the Exempt Plan or RESP. An RRSP or RRIF holding Trust Units that are not qualified investments would become taxable on income attributable to the Trust Units while they are not qualified investments (including the entire amount of any capital gain arising on a disposition of the non-qualified investment). RESPs which hold Trust Units that are not qualified investments may have their registration revoked by the Canada Customs and Revenue Agency.
- Trust Units would become foreign property for registered pension plans upon the Trust ceasing to be a mutual fund trust. If the Trust's "registered investment" status is revoked by virtue of it ceasing to be a mutual fund trust, then the Trust Units would also become foreign property for Exempt Plans.
- The Trust would be taxed on certain types of income distributed to Unitholders, including income generated by the royalty held by the Trust. Payment of this tax may have adverse consequences for some Unitholders, particularly Unitholders that are not residents of Canada and residents of Canada that are otherwise exempt from Canadian income tax.
- The Trust would cease to be eligible for the capital gains refund mechanism available under the Tax Act.

- Trust Units held by Unitholders that are not residents of Canada would become taxable Canadian property. These non-resident holders would be subject to Canadian income tax on any gains realized on a disposition of Trust Units held by them.

In addition, the Trust may take certain measures in the future to the extent the Trust believes such measures are necessary to ensure the Trust maintains its status as a mutual fund trust. These measures could be adverse to certain holders of Trust Units.

#### **ADDITIONAL INFORMATION**

Additional information relating to the Trust may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information related to the remuneration and indebtedness of the directors and officers of VRL, and the principal holders of Trust Units and Rights to purchase Trust Units and securities authorized for issuance under the Trust's equity compensation plans, where applicable, are contained in the information circular of the Trust in respect of its most recent annual meeting of Unitholders. Additional financial information is provided in the Trust's audited financial statements and management's discussion and analysis for the year ended December 31, 2003.

**SCHEDULE "A"**

**REPORT ON RESERVES DATA**  
**BY**  
**INDEPENDENT QUALIFIED RESERVES**  
**EVALUATOR OR AUDITOR**

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

1. We have prepared an evaluation of the Company's reserves data as at January 1, 2004. The reserves data consist of the following:
  - (a) (i) proved and proved plus probable oil and gas reserves estimated as at January 1, 2004, using forecast prices and costs; and
  - (ii) the related estimated future net revenue; and
  - (b) (i) proved oil and gas reserves estimated as at January 1, 2004, using constant prices and costs; and
  - (ii) the related estimated future net revenue.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

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

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2003, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

Description and Preparation Date of Evaluation	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue - \$MM (before income taxes, 10% discount)			
		Audited	Evaluated	Reviewed	Total
January 31, 2004	Canada	\$0	\$431.3	\$0	\$431.3
January 31, 2004	France	\$0	\$209.2	\$0	\$209.2
April 20, 2004	Trinidad	\$0	\$171.8	\$0	\$171.8
	Total	\$0	\$812.3	\$0	\$812.3

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

6. We have no responsibility to update this evaluation for events and circumstances occurring after the preparation dates.
7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

Gilbert Laustsen Jung Associates Ltd., Calgary, Alberta, Canada

Dated April 20, 2004

A handwritten signature in cursive script that reads "Keith Braaten".

Keith M. Braaten

**SCHEDULE "B"**  
**REPORT OF MANAGEMENT AND DIRECTORS**  
**ON RESERVES DATA AND OTHER INFORMATION**  
**(FORM 51-101F3)**

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

Management of Vermilion Energy Trust (the "Company") are responsible for the preparation and disclosure, or arranging for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

- (a) (i) Proved and Proved plus probable oil and gas reserves estimated as at December 31, 2003 using forecast prices and costs; and
- (ii) the related estimated future net revenue; and
- (b) (i) Proved oil and gas reserves estimated as at December 31, 2003 using constant prices and costs; and
- (ii) the related estimated future net revenue.

Independent qualified reserves evaluators have evaluated and reviewed the Company's reserves data. The report of the independent qualified reserves evaluators is presented in Schedule A to the Annual Information Form of the Company for the year ended December 31, 2003.

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

- (c) reviewed the Company's procedures for providing information to the independent qualified reserves evaluators;
- (d) met with the independent qualified reserves evaluator(s) to determine whether any restrictions affected the ability of the independent qualified reserves evaluators to report without reservation; and
- (e) reviewed the reserves data with Management and the independent qualified reserves evaluators.

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

- (f) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;
- (g) the filing of the report of the independent qualified reserves evaluator(s) on the reserves data; and
- (h) the content and filing of this report.

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

“Lorenzo Donadeo”  
\_\_\_\_\_  
President and Chief Executive Officer

“Curtis Hicks”  
\_\_\_\_\_  
V.P. Finance and CFO

“Claudio Ghersinich”  
\_\_\_\_\_  
Director

“Jeff Boyce”  
\_\_\_\_\_  
Director

April 20, 2004

Additional copies of this annual information form may be obtained from Vermilion. Please contact:

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