VERMILION

ENERGY TRUST

2006

FINANCIAL STATEMENTS

MANAGEMENT'S REPORT TO UNITHOLDERS

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

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

Deloitte & Touche LLP, the Trust's external auditors, have conducted an audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and have provided their report.

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

("Lorenzo Donadeo")

Lorenzo Donadeo
President & Chief Executive Officer
March 20, 2007

("Curtis Hicks")

Curtis W. Hicks
Executive Vice President &
Chief Financial Officer

AUDITORS' REPORT

To the Unitholders of Vermilion Energy Trust:

We have audited the accompanying consolidated balance sheets of Vermilion Energy Trust (the "Trust") as of December 31, 2006 and 2005 and the related consolidated statements of earnings and accumulated earnings and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Vermilion Energy Trust as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

On March 20, 2007, we reported separately to the Board of Directors of Vermilion Resources Ltd. and to the Unitholders of Vermilion Energy Trust on our audit conducted in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) of financial statements for the same period, prepared in accordance with Canadian generally accepted accounting principles, but which included Note 19, Differences Between Canadian and United States of America Generally Accepted Accounting Principles.

("Deloitte & Touche LLP")

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta
March 20, 2007

Consolidated Balance Sheets
December 31
(THOUSANDS OF CANADIAN DOLLARS)

	2006	2005
ASSETS		
Current		
Cash and cash equivalents	$ 26,950	$ 42,777
Accounts receivable	120,573	75,098
Crude oil inventory	4,898	10,279
Fair value of derivative instruments (Note 12)	1,624	1,166
Prepaid expenses and other	13,473	9,387
	167,518	138,707
Fair value of derivative instruments (Note 12)	4,656	-
Long-term investments (Notes 3 and 15)	27,152	19,637
Goodwill (Note 3)	19,840	19,840
Reclamation fund (Note 5)	56,357	42,198
Capital assets (Note 4)	1,187,316	891,357
	$ 1,462,839	$ 1,111,739
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 139,672	$ 90,422
Distributions payable to unitholders	11,000	10,626
Income taxes payable	13,419	11,607
Fair value of derivative instruments (Note 12)	-	383
	164,091	113,038
Long-term debt (Note 6)	358,236	271,099
Asset retirement obligation (Note 5)	127,494	70,214
Future income taxes (Note 7)	224,631	160,475
	874,452	614,826
Non-controlling interest - exchangeable shares (Note 9)	51,780	38,760
UNITHOLDERS' EQUITY		
Unitholders' capital (Note 8)	321,035	274,813
Contributed surplus (Note 8)	30,513	14,566
Accumulated earnings	663,437	516,514
Accumulated cash distributions	(478,378)	(347,740)
	536,607	458,153
	$ 1,462,839	$ 1,111,739

APPROVED BY THE BOARD

("Joseph F. Killi") *("Lorenzo Donadeo")*

Joseph F. Killi, Director Lorenzo Donadeo, Director

Consolidated Statements of Earnings and Accumulated Earnings

Years Ended December 31

(THOUSANDS OF CANADIAN DOLLARS, EXCEPT UNIT AND PER UNIT AMOUNTS)

	2006	2005
REVENUE		
Petroleum and natural gas revenue (Note 12)	$ 618,072	$ 529,938
Royalties	92,212	88,001
	525,860	441,937
EXPENSES		
Production	96,492	72,856
Transportation	10,504	9,136
Unit compensation (Note 10)	24,383	14,000
(Gain) loss on derivative instruments (Note 12)	(349)	18,787
Interest	15,433	6,331
General and administration (Note 10)	15,839	13,241
Foreign exchange loss (gain)	12,997	(10,727)
Depletion, depreciation and accretion	162,254	122,098
	337,553	245,722
EARNINGS BEFORE INCOME TAXES AND OTHER ITEMS	188,307	196,215
INCOME TAXES (RECOVERY) (NOTE 7)		
Future	(16,349)	(240)
Current and capital	42,876	25,007
	26,527	24,767
OTHER ITEMS		
Non-controlling interest - exchangeable shares (Note 9)	14,917	14,399
Non-controlling interest (Note 3)	-	(1,159)
Equity in (earnings) of affiliates (Note 3)	(60)	(263)
	14,857	12,977
NET EARNINGS	146,923	158,471
ACCUMULATED EARNINGS, BEGINNING OF YEAR	516,514	358,043
ACCUMULATED EARNINGS, END OF YEAR	$ 663,437	$ 516,514
NET EARNINGS PER TRUST UNIT (NOTE 11)		
Basic	$ 2.30	$ 2.57
Diluted	$ 2.22	$ 2.49
WEIGHTED AVERAGE TRUST UNITS OUTSTANDING (NOTE 11)		
Basic	63,977,134	61,755,432
Diluted	73,059,877	69,395,074

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

	2006	2005
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):		
OPERATING		
Net earnings	$ 146,923	$ 158,471
Items not affecting cash:		
Depletion, depreciation and accretion	162,254	122,098
Amortization of deferred charges for derivative instruments	-	4,718
Change in unrealized gains and losses and amounts accrued relating to derivative contracts	(571)	(22,393)
Unit compensation	24,383	14,000
Equity in (earnings) of affiliates	(60)	(263)
Unrealized foreign exchange loss (gain)	12,353	(11,466)
Non-controlling interest	-	(1,159)
Non-controlling interest - exchangeable shares	14,917	14,399
Income earned on reclamation fund	(1,348)	-
Future income tax recovery	(16,349)	(240)
Funds from operations	342,502	278,165
Asset retirement costs incurred	(4,217)	(948)
Changes in non-cash operating working capital (Note 13)	(32,252)	(32,101)
	306,033	245,116
INVESTING		
Drilling and development of petroleum and natural gas properties	(136,939)	(113,530)
Acquisition of petroleum and natural gas properties	(26,435)	(90,318)
Long-term investment (Note 3)	(7,500)	(12,299)
Corporate acquisition (Note 3)	(124,604)	(87,036)
Purchase of derivative instrument (Note 12)	(4,926)	-
Contributions to reclamation fund	(9,553)	(25,183)
Changes in non-cash investing working capital (Note 13)	548	(7,068)
	(309,409)	(335,434)
FINANCING		
Issue of trust units for cash, net of unit issue costs	11,545	9,147
Cash distributions	(130,264)	(125,884)
Increase in long-term debt	87,137	196,084
Issue of trust units pursuant to distribution reinvestment plan	18,811	15,850
Cash acquired on shares issued by subsidiary, net of share issue costs	-	424
Changes in non-cash financing working capital (Note 13)	(1,531)	(584)
	(14,302)	95,037
Foreign exchange gain (loss) on cash held in foreign currencies	1,851	(9,062)
Net change in cash and cash equivalents	(15,827)	(4,343)
Impact on cash resulting from de-consolidation of Verenex (Note 3)	-	(17,911)
Cash and cash equivalents, beginning of year	42,777	65,031
Cash and cash equivalents, end of year	$ 26,950	$ 42,777
Supplementary information - cash payments		
Interest paid	$ 20,320	$ 8,612
Income taxes paid	$ 47,523	$ 26,190

1. BASIS OF PRESENTATION

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation
The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Trust and its subsidiaries on a consolidated basis, all of which are wholly owned. Inter-company account balances and transactions are eliminated upon consolidation. Since December 15, 2005, Verenex Energy Inc. ("Verenex") (Note 3) has been accounted for using the equity method.

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Long-Term Investments
Investments in which the Trust has significant influence are accounted for using the equity basis of accounting whereby the investment cost is increased or decreased for the Trust's percentage of net earnings or loss and reduced by dividends paid to the Trust.

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

The Trust expenses any decline in the fair value of long-term investments below their carrying value when management assesses the decline to be other than temporary.

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

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

Derivative Financial Instruments
The Trust has elected to not designate any of its price risk management activities as accounting hedges and accounts for derivative financial instruments at fair value. The Trust uses derivative financial instruments to manage exposures to fluctuations in commodity prices, interest rates and foreign currency exchange rates. All transactions of this nature entered into by the Trust are related to an underlying financial position or to future petroleum and natural gas production. The Trust does not use derivative financial instruments for trading purposes. The fair value of derivative financial instruments are recorded in the consolidated balance sheets with changes in fair value of derivative financial instruments recognized in earnings during the period.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The amount previously recognized in contributed surplus together with the consideration paid upon the exercise of unit rights is recorded as an increase in unitholders' capital. The Trust has not incorporated an estimated forfeiture rate for awards that will not vest, rather, the Trust accounts for forfeitures as they occur. See Note 10 for a description of the long-term unit compensation plans.

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

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

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

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

Reclamation Fund
A reclamation fund has been created by the Trust to ensure that assets are available to fund future abandonment and reclamation work on wells, plants and facilities. Reclamation fund assets are comprised of bonds, which are carried at amortized cost and cash and equity securities which are carried at cost. The Trust expenses any decline in the fair value of reclamation fund assets below their carrying value when management assesses the decline to be other than temporary.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

3. INVESTMENTS AND ACQUISITIONS

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

In conjunction with the transaction described above, Vermilion sold to Verenex exploration interests in France and a royalty on producing oil and gas assets in Alberta in exchange for 10 million common shares. The sale of assets was recorded at the underlying cost of the assets to the Trust due to the related party nature of the transaction. The Trust also subscribed for 2 million of common shares at a price of $2.50 per share through Verenex's $32.6 million private placement on June 29, 2004.

On December 15, 2005 Verenex completed a $26 million private placement in which Vermilion subscribed for 3.1 million shares at a price of $3.20 per share, representing 38% of the private placement resulting in the Trust's equity interest in Verenex being reduced to 49% from 53%.

Effective December 15, 2005, the Trust discontinued consolidating the financial results of Verenex, as the Trust was no longer considered to control Verenex. The investment in Verenex has since been accounted for using the equity basis of accounting. Comparative figures have not been restated.

The impact of no longer consolidating Verenex had the following effect on the Trust's December 31, 2005 balance sheet:

(000's)	Increase (Decrease)
Current assets	$ (36,344)
Capital assets	(15,951)
Current liabilities	(2,716)
Non-controlling interest	(26,948)
Contributed surplus	(3,591)
Initial investment in Verenex	19,040
Equity in income of affiliate from December 15 to December 31, 2005	56
Investment in Verenex at December 31, 2005	$ 19,096

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

b) *Glacier Energy Limited ("Glacier")*
On June 16, 2004, the Trust acquired 5.4 million shares of Glacier for consideration of 50% of the Trust's working interest in the CBM and shallow gas rights over certain of its lands. On June 20, 2005, the Trust acquired an additional 0.9 million shares of Glacier at a price of $2.50 per share as part of a private placement completed by Glacier.

3. INVESTMENTS AND ACQUISITIONS (Continued)

On December 7, 2005, the Trust acquired the outstanding shares of Glacier, not already owned by the Trust, for total cash consideration of $87.0 million. Equity income of affliate of $0.2 million was recorded by the Trust up to December 7, 2005. The acquisition was accounted for using the purchase method of accounting, effective from December 7, 2005 as follows:

Allocation of purchase price:	First Purchase	Second Purchase	Total
Capital assets	$ 7,903	$ 98,918	$ 106,821
Goodwill	-	19,840	19,840
Future income taxes	-	(26,845)	(26,845)
Asset retirement obligation	-	(300)	(300)
	$ 7,903	91,613	99,516
Investment in Glacier	(7,903)	-	(7,903)
	-	91,613	91,613
Working capital	-	(4,577)	(4,577)
Cash paid	$ -	$ 87,036	$ 87,036

c) *Australia Acquisition*

On March 31, 2005, the Trust acquired $95.0 million of producing properties in Australia. The purchase price allocation was determined as follows:

Petroleum and natural gas assets and equipment	$ 113,840
Asset retirement obligation	(18,873)
	94,967
Accounts payable and accrued liabilities	(4,649)
Cash paid	$ 90,318

d) *Esso Rep Acquisition*

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

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

4. CAPITAL ASSETS

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

4. CAPITAL ASSETS (Continued)

2005	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 1,393,053	$ 504,094	$ 888,959
Furniture and equipment	7,566	5,168	2,398
	$ 1,400,619	$ 509,262	$ 891,357

As at December 31, 2006 and 2005 there were no costs for undeveloped properties to exclude from the depletion and depreciation calculation. During the year, the Trust capitalized $0.4 million (2005 - $0.3 million) of overhead costs related to exploration and development activities.

The Trust performed ceiling test calculations at December 31, 2006 and 2005 to assess whether the carrying value of petroleum and natural gas properties and equipment is recoverable. Based on the calculations, the undiscounted future cash flows from the Trust's proved reserves exceeded the carrying values of the Trust's petroleum and natural gas properties and equipment at December 31, 2006 and 2005.

The benchmark prices used in the calculation are as follows:

CDN$/BOE	Canada	France	Netherlands	Australia
2007	$50.63	$63.06	$50.06	$66.38
2008	$50.52	$61.02	$47.25	$64.08
2009	$50.74	$58.94	$45.68	$61.78
2010	$50.36	$57.84	$44.49	$60.63
2011	$50.74	$57.78	$44.13	$60.63
Average increase thereafter	2.0%	2.0%	2.0%	2.0%

5. ASSET RETIREMENT OBLIGATION AND RECLAMATION FUND

The total asset retirement obligation was determined by management based on the estimated future costs and timing to reclaim the Trust's net interest in all wells and facilities. The Trust has estimated the net present value of its asset retirement obligations to be $127.5 million as at December 31, 2006 (2005 - $70.2 million) based on a total undiscounted future liability before inflation adjustment of $367.1 million (2005 - $236.7 million). These payments are expected to be made over the next 47 years with most coming within the time frame of 25-30 years. The Trust used a credit adjusted risk free rate of 8% and an inflation rate of 1.5% to calculate the present value of the asset retirement obligation.

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

	2006	2005
Carrying amount, beginning of period	$ 70,214	$ 51,688
Increase in liabilities in the period	21,297	19,656
Disposition of liabilities in the period	(4,217)	(948)
Change in estimate	24,946	3,089
Accretion expense	7,380	4,935
Foreign exchange	7,874	(8,206)
Carrying amount, end of period	$ 127,494	$ 70,214

The Trust has set aside funds for the future payment of its estimated asset retirement obligations. In 2006, the Trust contributed $9.6 million (2005 - $25.2 million) to the reclamation fund.

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

	Carrying Value 2006	Carrying Value 2005
Cash and short-term investments, at cost (market value 2006 - $30.7 million; 2005 - $25.8 million)	$ 30,685	$ 25,789
Bonds, at amortized cost (market value 2006 - $17.4 million; 2005 - $11.2 million)	17,458	11,217
Equity securities, at cost (market value 2006 - $10.7 million; 2005 - $5.7 million)	8,214	5,192
	$ 56,357	$ 42,198

5. ASSET RETIREMENT OBLIGATION AND RECLAMATION FUND (Continued)

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

6. LONG-TERM DEBT

As at December 31, 2006, the Trust had an unsecured covenant based revolving credit facility in the amount of $500 million. The revolving period under the term loan is expected to expire in July 2007 and may be extended for an additional period of up to 364 days at the option of the lender. If the lenders convert the revolving credit facility to a non-revolving credit facility, the amounts outstanding under the facility become repayable 12 months after the end of the revolving period. Various borrowing options are available under the facility including prime rate based advances and bankers' acceptance loans.

7. INCOME TAXES

The net future income tax liability at December 31, 2006 and 2005 is comprised of the following:

	2006	2005
Future income tax liabilities:		
Capital assets	$ (250,282)	$ (176,736)
Derivative contracts	(2,095)	(266)
Partnership income deferral	(5,069)	(44,666)
Future income tax assets:		
Non-capital losses	22,920	41,824
Asset retirement obligation	8,689	17,743
Basis difference of investments	1,176	1,556
Share issue costs	30	70
Net future income tax (liability)	$ (224,631)	$ (160,475)

The provision for income tax differs from the amount that would have been expected if the reported earnings had been subject only to the statutory Canadian income tax rate of 34.50% (2005 – 37.62%), as follows:

	2006	2005
Earnings before income taxes and other items	$ 188,307	$ 196,215
Canadian corporate tax rate	34.50%	37.62%
Expected tax expense	64,966	73,816
Increase (decrease) in taxes resulting from:		
Income attributable to the unitholders	(45,069)	(40,971)
Non-deductible Crown payments	4,071	10,344
Resource allowance	(2,863)	(8,244)
Foreign tax rate differentials*	(8,563)	(2,689)
Statutory rate changes	(9,490)	-
Capital taxes	(179)	901
Unit compensation expense	8,539	3,792
Amended returns and pool estimate variances	4,653	(3,781)
Foreign exchange	10,064	(9,172)
Other	398	771
Provision for income taxes	$ 26,527	$ 24,767

* The corporate tax rate in France is 34.4%, 41% in the Netherlands and 30% in Australia

On October 31, 2006, the Government of Canada proposed changes to the tax treatment of income trusts that would take effect in 2011. If enacted, these changes would affect the taxable status of the Trust and would result in the recording of future income taxes at the Trust level.

8. UNITHOLDERS' CAPITAL AND CONTRIBUTED SURPLUS

The Trust is authorized to issue an unlimited number of units of the Trust. Upon conversion to a Trust, 6.0 million exchangeable shares of the Company were issued.

The exchangeable shares are convertible into trust units based on the exchange ratio, which is adjusted monthly to reflect the distributions paid on the trust units. Cash distributions are not paid on the exchangeable shares. On the 10th anniversary of the issuance of the exchangeable shares, subject to extension of such date by the Board of Directors of the Company, the exchangeable shares will be redeemed for trust units on the basis of an exchange ratio as at the last business day prior to the redemption date (see Note 9).

The Trust established a Distribution Reinvestment Plan ("DRIP") in conjunction with the Trust's transfer agent to provide the option for unitholders to reinvest cash distributions into additional trust units issued from treasury. In 2006, the Trust issued 0.6 million units for proceeds of $18.8 million (2005 – 0.7 million units for proceeds of $15.9 million).

	Number of Units	Amount
Trust Units		
Unlimited number of trust units authorized to be issued		
Balance as at December 31, 2004	60,707,660	$ 244,015
Distribution reinvestment plan	674,766	15,850
Issued on conversion of exchangeable shares	73,692	1,623
Transfer from contributed surplus on unit right exercise	-	4,178
Trust units issued for bonus plan	40,246	827
Unit rights exercised	1,011,850	8,320
Balance as at December 31, 2005	62,508,214	274,813
Distribution reinvestment plan	609,907	18,811
Issued on conversion of exchangeable shares	225,132	7,430
Unit rights exercised and issuance of units on vesting of Trust Unit Award Plan grants	1,350,541	11,116
Transfer from contributed surplus on unit right exercise and vesting of Trust Unit Award Plan grants	-	8,436
Trust units issued for bonus plan	14,400	429
Balance as at December 31, 2006	64,708,194	$ 321,035

	2006	2005
Contributed Surplus		
Opening balance	$ 14,566	$ 9,136
Unit compensation expense (Note 10)	24,383	13,199
Transfer to unitholders' capital on unit right exercise and vesting of Trust Unit Award Plan grants	(8,436)	(4,178)
De-consolidation of Verenex (Note 3)	-	(3,591)
Ending balance	$ 30,513	$ 14,566

9. NON-CONTROLLING INTEREST

Exchangeable shares are convertible into trust units based on the exchange ratio which is adjusted monthly to reflect the distribution paid on the trust units. Cash distributions are not paid on the exchangeable shares.

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

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

9. NON-CONTROLLING INTEREST (Continued)

	2006	2005
Exchangeable Shares		
Opening number of exchangeable shares	4,619,335	4,675,961
Exchanged for trust units	(160,416)	(56,626)
Ending Balance	4,458,919	4,619,335
Ending exchange ratio	1.46741	1.37836
Trust units issuable upon conversion	6,543,062	6,367,107

Following is a summary of the non-controlling interest:

	2006	2005
Non-controlling interest, beginning of year	$ 38,760	$ 24,686
Reduction of book value for conversion to trust units	(1,897)	(325)
Current period net earnings attributable to non-controlling interest	14,917	14,399
Non-controlling interest, end of year	$ 51,780	$ 38,760

10. UNIT COMPENSATION PLANS

Unit Rights Incentive Plan

The Trust has a unit rights incentive plan that allows the Trust to issue rights to acquire trust units to directors, officers and employees. The Trust is authorized to issue up to 6.0 million unit rights; however, the number of trust units reserved for issuance upon exercise of the rights shall not at any time exceed 10% of the aggregate number of issued and outstanding trust units of the Trust. Unit right exercise prices are equal to the market price for the trust units on the date the unit rights are issued. If certain conditions are met, the exercise price per unit may be calculated by deducting from the grant price the aggregate of all distributions, on a per-unit basis, made by the Trust after the grant date. Rights granted under the plan vest over a three-year period and expire five years after the grant date. No future rights are expected to be issued as the unit rights incentive plan was replaced with a Trust Unit Award Plan in 2005. The existing rights plan will be in place until all issued and outstanding rights are exercised or cancelled.

The Trust used the Black-Scholes option-pricing model to calculate the estimated fair value of the outstanding rights. The following assumptions were used to arrive at the estimate of fair value:

	2005	2004
Expected volatility	22.33%	22.33%
Risk-free interest rate	4.0%	4.0%
Expected life of option (years)	5.0	5.0
Fair value per option	$5.28	$4.16 - $5.52

The dividend yield is offset by the reducing strike price feature of the plan resulting in using a zero dividend yield in the option-pricing model. The remaining fair value of the rights will be recognized in earnings over the remaining vesting period of the rights outstanding. During the year, $2.6 million of the fair value has been recorded as compensation expense (2005 - $6.8 million). Any consideration paid upon exercise together with the amount previously recognized in contributed surplus is recorded as an increase to unitholders' capital.

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

	2006		2005	
	Number of Unit Rights	Weighted Average Exercise Price	Number of Unit Rights	Weighted Average Exercise Price
Opening Balance	3,617,750	$ 13.81	4,744,100	$ 13.99
Granted	-	-	48,600	20.20
Cancelled	(177,800)	17.85	(163,100)	16.79
Exercised	(1,195,692)	12.63	(1,011,850)	12.13
Closing balance	2,244,258	$ 14.12	3,617,750	$ 14.47

10. UNIT COMPENSATION PLANS (Continued)

A summary of the plan as at December 31, 2006 is as follows:

Range of Exercise Price at Grant Date	Adjusted Exercise Price	Number of Rights Outstanding	Remaining Contractual Life of Right (Years)	Number of Rights Exercisable
$11.45	$3.46	1,263,375	1.08	1,263,375
$11.46 - $15.00	$3.64 - $7.18	119,400	1.39	119,067
$15.01 - $19.56	$8.89 - $13.44	861,483	2.66	495,716

Trust Unit Award Incentive Plan

In 2005, the Board of Directors established a new trust unit award incentive plan (the "Award Plan") governing the issuance of restricted units of the Trust to directors, officers, employees and consultants of the Trust and its Affiliates. The Award Plan consists of units that are designated as either a Restricted Time Based Award ("RTBA's") for which the number of awards is fixed or a Performance Based Award ("PBA's") for which the number of awards is variable.

Upon vesting, the grantee will be delivered units of the Trust, adjusted for cumulative distributions of the Trust during the period that the restricted units are outstanding. The number of units issued upon vesting of the PBA's is dependent upon the future performance of the Trust compared to its peers based on a performance factor that may range from zero to two times the number of PBA's originally granted. The vesting date for all restricted units is on the date that is the third anniversary of the date of the Unit Award grant except for awards granted in the grantee's first year of service which vest over three years.

The following table summarizes information about the Award Plan:

	Number of Awards
Balance December 31, 2005	655,550
Granted	521,275
Vested	(76,775)
Cancelled	(132,250)
Balance December 31, 2006	967,800

Compensation expense of $21.8 million was recorded during the year ended December 31, 2006 (2005 - $3.3 million).

Verenex Energy Inc. Compensation Plans

Effective December 15, 2005, Verenex is not considered to be controlled by the Trust (Note 3). In 2005, $3.1 million was recognized in stock compensation expense for the options and warrants of Verenex up to December 15, 2005. Subsequent to that date, Verenex has been accounted for as an equity investment.

Phantom Award Incentive Plan

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

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

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

11. PER-UNIT AMOUNTS

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

	2006	2005
Basic		
Net earnings per unit	$2.30	$2.57
Weighted-average number of units outstanding (thousands)	63,977	61,755
Diluted		
Net earnings per unit	$2.22	$2.49
Weighted-average number of units outstanding (thousands)	73,060	69,395

The number of units used to calculate diluted earnings per unit for the year ended December 31, 2006 of 73.1 million (2005 - 69.4 million) includes the weighted-average number of units outstanding of 64.0 million (2005 - 61.8 million) plus 2.5 million (2005 - 1.2 million) units related to the dilutive impact of the unit rights incentive and trust unit award plans and 6.6 million for outstanding exchangeable shares at the period end exchange ratio (2005 – 6.4 million).

The determination of diluted net earnings per unit was not affected by unit rights that would be anti-dilutive as the respective exercise prices exceeded the average market price of the units. Net earnings attributable to the non-controlling interest-exchangeable shares is added back to net earnings from operations in calculating dilutive per unit amounts.

12. DERIVATIVE INSTRUMENTS

Risk Management Activities

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

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

Risk Management: Oil	Funded Cost	bbls/d	US$/bbl
Collar – WTI			
2007	US$1.00/bbl	500	$60.00 - $77.30
Q1 2007	costless	250	$58.00 - $83.85
Q1 2007	US$0.11/bbl	250	$65.00 - $90.00
Q1 2007	US$0.06/bbl	500	$70.00 - $90.00
Q2 2007	US$0.50/bbl	500	$61.70 - $90.00
Put			
2007	US$1.27/bbl	250	$57.05
Collar - BRENT			
Q3 2007	US$0.88/bbl	500	$60.00 - $90.00
Q4 2007	US$0.70/bbl	500	$60.00 - $89.00
Call Spread - BRENT			
2009 - 2011	US$5.73/bbl	700	$65.00 - $85.00

Risk Management: Natural Gas	Funded Cost	GJ/d	C$/GJ
Collar			
Q2 2007	$0.35/GJ	2,500	$6.50 - $7.85
Q2 2007	$0.25/GJ	2,500	$6.25 - $7.96
April-October 2007	$0.02/GJ	2,500	$6.50 - $9.00
Put			
Q1 2007	$0.34/GJ	4,000	$6.37
Q1 2007	$0.34/GJ	3,000	$6.60
Q1 2007	$0.34/GJ	3,000	$6.44

12. DERIVATIVE INSTRUMENTS (Continued)

Through January 1, 2004 the fair value of all outstanding derivative financial instruments that were not recorded as accounting hedges were recorded on the consolidated balance sheets with an offsetting amount to deferred charges. The deferred charge was recognized into revenue over the life of the associated contracts. The remaining deferred charge at January 1, 2005 was $4,718 and was recognized as a charge to revenue in that year.

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

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

	2006	2005
Fair value of contracts, beginning of period	$ 783	$ (21,610)
Opening unrealized (gain) loss on contracts settled during the period	(783)	21,610
Realized (loss) on contracts settled during the period	(222)	(41,180)
Unrealized gain during the period on contracts outstanding at the end of the period	1,354	783
Purchase of derivative contracts at fair value	4,926	-
Net payment to counterparties under contract settlements during the period	222	41,180
Fair value of contracts, end of period	6,280	783
Comprised of:		
Current derivative asset	1,624	1,166
Current derivative liability	-	(383)
Non-current derivative asset	4,656	-
	$ 6,280	$ 783

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

	2006	2005
Realized loss on contracts settled during the period	$ 222	$ 41,180
Opening unrealized gain (loss) on contracts settled during the period	783	(21,610)
Unrealized (gain) loss during the period on contracts outstanding at the end of the period	(1,354)	(783)
(Gain) loss on derivative instruments for the period	$ (349)	$ 18,787

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

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

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

Fair Values

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt approximated their fair values as at December 31, 2006 and 2005 as a result of the short-term nature of these instruments and, in the case of long-term debt, having variable interest rates which approximate market value.

13. CASH FLOW INFORMATION

The following amounts represent the changes in non-cash working capital:

	2006	2005
Accounts receivable	$ 10,497	$ (13,087)
Crude oil inventory	18,571	(5,811)
Prepaid expenses and other	(4,085)	(4,369)
Accounts payable and accrued liabilities	(62,399)	(17,017)
Foreign exchange	4,181	531
Changes in non-cash working capital	$ (33,235)	$ (39,753)

14. SEGMENTED INFORMATION

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

	2006	2005
Petroleum and natural gas revenue		
Canada	$ 208,306	$ 243,199
France [1]	201,650	133,729
Netherlands	92,592	72,525
Australia [2]	115,524	80,485
	$ 618,072	$ 529,938
Net earnings		
Canada	$ 26,658	$ 57,383
France [1]	60,079	47,652
Netherlands	29,660	24,038
Australia [2]	30,526	29,398
	$ 146,923	$ 158,471
Funds from operations		
Canada	$ 110,546	$ 130,023
France [1]	133,433	62,145
Netherlands	53,125	50,940
Australia [2]	45,398	35,057
	$ 342,502	$ 278,165
Capital expenditures		
Canada	$ 111,216	$ 141,022
France [1]	209,364	50,649
Netherlands	3,673	12,434
Australia [2]	8,566	96,005
	$ 332,819	$ 300,110
Total assets		
Canada	$ 627,147	$ 588,462
France [1]	542,074	255,816
Netherlands	148,710	121,296
Australia [2]	144,908	146,165
	$ 1,462,839	$ 1,111,739

[1] France segmented information reflects the acquisition of Vermilion Emeraude Rep SAS effective July 10, 2006

[2] Australia assets were acquired March 31, 2005

15. LONG-TERM INVESTMENTS

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

	Carrying Value 2006	Carrying Value 2005
Portfolio investments, at cost (market value 2006 - $5.2 million; 2005 - $5.2 million)	$ 496	$ 541
Investment in Verenex Energy Inc., equity method	26,656	19,096
	$ 27,152	$ 19,637

16. RELATED PARTY TRANSACTIONS

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

17. COMMITMENTS

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

18. GUARANTEES

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

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

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

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

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

TRUST INFORMATION

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Joseph F. Killi [2, 3]
Chairman,
Parkbridge Lifestyle Communities Inc.
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William F. Madison [2, 4, 5]
Sugar Land, Texas

1 Chairman of the Board
2 Audit Committee
3 Governance and Human Resources Committee
4 Health, Safety and Environment Committee
5 Independent Reserves Committee

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Executive Vice President & CFO

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

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

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

Paul L. Beique
Director Investor Relations

Cheryl M. Kinzie
Director Human Resources & Administration

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