VERMILION

ENERGY TRUST

ANNUAL REPORT

2006

FINANCIAL STATEMENTS

AND

MANAGEMENT'S DISCUSSION AND ANALYSIS

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ANNUAL AND SPECIAL MEETING

May 4, 2007 at 10:00 a.m.
The Ballroom
Metropolitan Centre
333 – 4th Avenue S.W.
Calgary, Alberta

ABBREVIATIONS

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

DISCLAIMER:

This document contains forward-looking financial and operational information including debt levels, production and capital expenditure projections. These projections are based on the Trust's expectations and are subject to a number of risks and uncertainties that could materially affect the results. These risks include, but are not limited to, future commodity prices, exchange rates, interest rates, geological risk, reserves risk, political risk, product demand and transportation restrictions. Certain natural gas volumes have been converted on the basis of six thousand cubic feet of gas to one barrel equivalent of oil. Barrels of oil equivalent (boe's) may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

PRESIDENT'S MESSAGE TO UNITHOLDERS

Dear Unitholders:

As significant unitholders of the Trust, Vermilion's management team and Board of Directors are focused on preserving the valued capital you have invested with us and generating competitive rates of return on your investment. We're proud to have delivered on your trust again in 2006. Despite volatile commodity prices and an unwelcome announcement by the Canadian government late in the year, Vermilion generated a total return, including distributions, of 24.5% in 2006. As you can see in the chart below, not only did we far outperform commodity prices and our peer group of energy trusts, we exceeded the performance of all of the major equity indices in North America.

2006 Total Return Performance

VET.UN	Peer Group Average	S&P/TSX Energy Trust Index	S&P/TSX Energy Index	S&P's 500 Composite Index	S&P/TSX Composite Index	Dow Jones Industrial Average	Russell 2000 Index
24.5%	-12.0%	-12.2%	1.5%	13.6%	14.5%	16.3%	17.0%

This marks the third consecutive year we have achieved top-quartile performance, a time period in which we delivered a sector-leading compounded average rate of return of 38.9% for our unitholders.

As you likely know, on October 31, 2006, the Canadian government announced plans to introduce a tax on distributions of trusts beginning in 2011. While this was disappointing news, we believe Vermilion will be one of the least affected of Canadian energy trusts. We anticipate few adjustments to our successful business model, primarily because Vermilion is financially conservative. In our business plan, we target the sum of the Trust's cash outflows, including distributions and development capital expenditures, to be less than or equal to the funds generated from operations. Accordingly, our distribution payout ratio and the potential tax on Vermilion's distributions are among the lowest in our peer group. We believe the significant portion of funds we generate from international operations also reduces the impact of the proposed taxation model on our unitholders. We expect the dividends and interest to unitholders generated from our international jurisdictions - where we have already paid corporate taxes - will be available to our unitholders without further taxation. In 2006, these funds represented approximately 60% of the distributions paid. The bottom line is the taxable portion of Vermilion's distributions would only be the amount related to our Canadian operations. And it's our opinion that we can shelter a significant portion of this potential tax using existing and future tax pools.

Vermilion's standout achievement in 2006 reflected strong performance in all of our operating regions and the successful acquisition of 3,900 boe/d of light oil production in France. More importantly, over the past four years we have assembled a rich portfolio of opportunities and a highly talented staff that will enable Vermilion to continue to deliver the success our unitholders have come to expect.

We replaced in excess of 200% of 2006 production through drilling and acquisitions, increasing reserves by 5.5% per debt-adjusted unit above year-end 2005. Over the past three years, Vermilion has increased proved plus probable reserves per debt-adjusted unit by 32%, while increasing our production per unit by 24%. The Trust's proved plus probable reserve life index at the end of 2006 increased to 11.5 years compared with 11.4 years at the end of 2005.

Our Canadian operations continue to perform as core-capacity assets. We have successfully arrested declining production in Canada and anticipate delivering moderate growth in the coming years. We're generating encouraging results in our coalbed methane (CBM) and shallow gas program. With the installation late in 2006 of new compression facilities at Morningside, Alberta, we're already seeing strong production increases from this long-life asset. Now that these new facilities are onstream, we anticipate additional CBM supplies can be developed in this area with very attractive economics. We have more than 400 development drilling opportunities on our CBM land base and we're continuing to explore the expansion of our holdings.

We have also returned to our roots in the Drayton Valley area of Alberta through an exciting drilling and recompletion program in this tight-gas region. Success in targeting the development and extension of existing reservoirs is often serendipitous because of the multi-zone characteristics of these prospects. By drilling wells with multiple chances of commercial success, we greatly reduce the risk associated with this program. As with our CBM program, Vermilion stands out by controlling an extensive land base - in Drayton Valley it covers more than 160,000 net acres, of which approximately 50% is undeveloped.

In 2006 in France, we focused on successfully acquiring Esso Rep and integrating the properties and personnel into our existing operations. We're pleased with the quality of these assets and look forward to revitalizing production through workovers, recompletions and new drilling. We acquired two fields with world-scale reservoirs, Chaunoy in the Paris Basin and Cazaux in the Aquitaine Basin. Each field holds significant potential to expand Vermilion's reserve and production base through improvements in waterflood technologies and eventually through implementing tertiary recovery processes.

We concentrated our activities in the Netherlands in 2006 on improving our processing facilities. Vermilion also successfully maneuvered a proposed drilling program through the regulatory approval process, which will enable us to drill the first of a series of onshore wells designed to offset the declining production and reserve base. The Trust recovered its original investment in the Netherlands in just over two years, benefiting from strong commodity prices and better-than-expected production. We look forward to building on this base through a development drilling program and we continue to seek additional acquisition prospects to improve our critical mass.

In the Wandoo reservoir in Australia, Vermilion began the first phase of projects aimed at enhancing production and extending the reserve life. We significantly expanded our fluid handling facilities on the Wandoo B platform, installed a water-isolation plug in one well and ran production logs in several additional wells. The information we gathered from these programs set the stage for two major well interventions scheduled for 2007, where we will target the recovery of bypassed oil zones in existing wells. These are the first well interventions at Wandoo since the field was initially put on production in the mid-1990s.

Vermilion anticipates a development capital program for 2007 of $155 million, a 13% increase compared with 2006. We continue to restrict the total use of capital (including development capital, distributions and contributions to the reclamation fund) to amounts equal to or less than funds available from operations. Any acquisitions would be financed with additional debt and equity, depending on the size and state of our balance sheet. We believe Vermilion's 2007 development capital program will be sufficient to offset normal production declines, reflecting the long-term sustainability of our trust model.

Vermilion continues to advance initiatives with low risk and high opportunity for option value. By providing unitholders with exposure to significant value-enhancement opportunities with limited capital risk, Vermilion truly stands apart from the generic trust model. Vermilion owns approximately 16.4 million shares, representing a 45.4% interest, in Verenex Energy Inc. ("Verenex"), a publicly traded international exploration and production company that's generating positive returns for our unitholders. Verenex recently announced a discovery on its first exploration well in Libya, where preliminary testing of one of the well's multiple zones yielded oil flows exceeding 5,000 bbls/d. Further testing of this well is in progress. Verenex is drilling a second well on a separate structure and plans to drill up to six wells in 2007.

On the Aquitaine Maritime prospect offshore France, Vermilion plans to drill a well in the third quarter of 2007 on one of several world-scale structures delineated by last year's 3D seismic program. Here, in the first well to be drilled offshore France since 1998, we'll target a structure covering 32 square kilometres with up to 500 metres of vertical closure. The Trust will retain a direct 47.5% interest in this well and earn an additional notional 10% through our equity interest in Verenex, which has a carried 22.5% interest in the well. Vermilion's estimated after-tax share of the capital cost to drill this well will be approximately US$5 million. Again, we are providing unitholders with potential for significant gains while minimizing the capital risk exposure.

Vermilion enjoys a rich portfolio of projects, an energized and committed employee group and a highly experienced management team dedicated to creating value for our investors. The Trust's seasoned Board of Directors provides strong guidance to the team and ensures Vermilion's compliance with unitholder and regulatory directives.

I'd like to express my heartfelt appreciation to Jeff Boyce, one of Vermilion's co-founders, who stepped down from the Board of Directors in 2006. Jeff was the President and CEO of the Trust's predecessor company, Vermilion Resources Limited, and the voice of Vermilion for many years. His passion was instrumental in establishing a stable and loyal shareholder base that we continue to enjoy to this day. I thank our employees who stand out for their diligence and dedication in making Vermilion the industry leader we have become. Lastly, thank you to all of our unitholders, whose continued support we value greatly and whose investment we care for as our own.

("Lorenzo Donadeo")

Lorenzo Donadeo
President & Chief Executive Officer
March 20, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis (MD&A) dated March 20, 2007 of Vermilion's operating and financial results for the years ended December 31, 2006 and 2005. This discussion should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2006 and 2005, together with accompanying notes.

NON-GAAP MEASURES

Included in this report are references to terms commonly used in the oil and gas industry, such as cash flow, cash flow per unit and funds from operations which represent cash flow from operating activities expressed before changes in non-cash working capital and are used by the Trust to analyze operating performance, leverage and liquidity. These terms do not have standardized meanings prescribed by Generally Accepted Accounting Principles ("GAAP") and therefore may not be comparable with the calculations of similar measures for other entities. Consequently, these are referred to as non-GAAP measures. Cash flow, as discussed in this report, appears as a separate caption on the Trust's cash flow statement as "funds from operations" and is reconciled to net earnings.

	Year Ended December 31	
($000'S)	2006	2005
Funds from operations	$342,502	$278,165
Changes in non-cash operating working capital	(32,252)	(32,101)
Asset retirement costs incurred	(4,217)	(948)
Cash from operations	$306,033	$245,116

FORWARD-LOOKING INFORMATION

This report contains forward-looking financial and operational information including earnings, cash flow, production and capital expenditure projections. These projections are based on the Trust's expectations and are subject to a number of risks and uncertainties that could materially affect the results. These risks include, but are not limited to, future commodity prices, exchange rates, interest rates, geological risk, reserves risk, political risk, product demand and transportation restrictions.

Highlights ($000's except per unit amounts)	2006	2005	2004*
Revenues	$618,072	$529,938	$354,525
Net earnings from continuing operations	146,923	158,471	66,010
Net earnings	146,923	158,471	127,513
Per unit basic	2.30	2.57	2.12
Per unit diluted	2.22	2.49	2.07
Funds from operations	342,502	278,165	170,179
Per unit	4.86	4.50	2.83
Return on equity (%)	29.5	37.4	34.0
Total assets	1,462,839	1,111,739	844,602
WTI (US$/bbl)	66.21	56.56	41.40
AECO (CDN$/mcf)	6.53	8.77	6.56
Realized price ($/boe)	61.78	53.48	39.48
Cash flow netback ($/boe)	$ 34.25	$ 30.15	$ 20.19

* Restated stock compensation expense

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

2005 Summary of Quarterly Results ($000's except per unit amounts)	Q1	Q2	Q3	Q4
Revenue	$108,715	$117,360	$149,877	$153,986
Net earnings	25,990	32,585	50,118	49,778
Per unit basic	0.43	0.53	0.81	0.80
Per unit diluted	$ 0.41	$ 0.53	$ 0.79	$ 0.78

QUARTERLY RESULTS

The increase in revenue and earnings in the first and second quarter of 2006 compared to the first and second quarter of 2005 is the result of higher oil prices in the period. In the third and fourth quarter, the acquisition of Esso Rep was offset by lower gas prices in 2006. Fourth quarter earnings were lower due to increased foreign exchange losses and increased compensation expense.

FOURTH QUARTER 2006

Revenue for the three months ended December 31, 2006 increased 1% over the three months ended December 31, 2005. WTI remained virtually unchanged for the fourth quarter of 2006 over the fourth quarter of 2005 and AECO decreased 40% in the same period. Earnings decreased significantly due mostly to an increase in foreign exchange loss, an increase in depletion, depreciation and accretion expense and unit compensation expense.

OPERATIONAL ACTIVITIES

Canada

In Canada, the Trust participated in the drilling of 81 wells (54.1 net) resulting in 44 gas wells (28.1 net), 3 abandoned holes (1.7 net) and 34 standing wells (24.3 net) awaiting further evaluation and tie-in. The total wells include 48 CBM and shallow gas wells (38.6 net) which continue to achieve a 100% success rate.

France

In France, Vermilion drilled and completed four new La Torche wells with mixed outcomes. Further evaluation of the results indicates the need to patiently develop these properties to achieve maximum impact. While the recent successful recompletion of the Conquille 1 well, which lies approximately five kilometers east of the nearest producer, confirms the aerial extent of this type of reservoir, the geologic complexity suggests that stepping out too far from successful producers raises the risk of the program. Accordingly, the wells scheduled in 2007 are being drilled in closer proximity to past successes.

Early in July 2006, Vermilion acquired control of 100% of Esso Rep in France. Subsequent to the date of acquisition, Esso Rep was renamed Vermilion Emeraude Rep SAS. The acquisition provided incremental production of approximately 3,900 boe/d of light, sweet crude oil. The acquired properties are situated in ten production concessions in the Paris and Aquitaine Basins. The two largest producing fields are at Chaunoy (Paris Basin) and Cazaux (Aquitaine Basin), which together represent approximately 65% of the acquired production. Base decline rates from the properties are about 12% annually, with operating and cash flow netbacks similar to those received from Vermilion's existing production in France.

Vermilion also began an active program to re-start shut-in producers, particularly in the Cazaux field in the Aquitaine Basin. A total of five wells were returned to production averaging approximately 150 bbls/d per well. Until the transportation issues are resolved in southern France, further re-starts and recompletions at Cazaux will be deferred.

Netherlands

In the Netherlands, Vermilion submitted three drilling permits to regulatory authorities and received approvals for all three, now scheduled for mid-2007. Initial targets include two development wells in existing tight-gas reservoirs at Harlingen and a larger step-out prospect at DeBlesse. The Trust reactivated two shut-in gas wells, installed three additional velocity strings and performed stimulations on two producing wells in 2006. The engineering team is finalizing plans to optimize facilities at the Harlingen and Garijp gas treatment centres. Enhanced compression utilization at Garijp allowed Vermilion to reduce the number of compressors by one third at that location. At Harlingen, Vermilion plans to replace two large gas-turbine compressors with smaller, electric powered units, which will reduce total horsepower requirements by two-thirds and eliminate the use of produced gas to power this facility. The changes at Harlingen are scheduled for the second half of 2007.

Australia

Vermilion completed the first phase of a significant expansion to the fluid handling capacity of the Wandoo platform in the fourth quarter of 2006. Production logs, used to determine the source of reservoir inflow, were performed on a number of wells last summer in preparation of a selective sub-surface workover program. Vermilion also experienced a high level of storm activity in early 2006, enduring a number of direct cyclones ranging from Category 2 to Category 4 storms. Vermilion's personnel and facilities performed admirably through this difficult period that yielded no injuries and relatively minor damage.

PRODUCTION

Average production in Canada during 2006 was 4,011 bbls/d of oil and NGL's and 41.0 mmcf/d of natural gas compared to 4,870 bbls/d of oil and NGL's and 38.4 mmcf/d of natural gas in 2005. Fourth quarter 2006 production averaged 3,752 bbls/d of oil and natural gas liquids and 42.0 mmcf/d of natural gas representing an annual decline of less than 3% compared to the fourth quarter of 2005. Canadian production is expected to experience modest growth in 2007.

Production in France averaged 7,800 boe/d in 2006, 37% higher than the 5,695 boe/d produced in 2005, reflecting the acquisition of 3,900 boe/d in early July 2006. Fourth quarter production of 9,841 boe/d in 2006 compared to 6,096 boe/d produced in France during the fourth quarter of 2005, reflecting the full impact of the acquisition. While current production capacity is near 10,000 boe/d, actual volumes in 2007 are expected to be slightly less, impacted by transportation issues in the Aquitaine Basin.

Production in the Netherlands averaged 4,943 boe/d in 2006 compared to 4,812 boe/d in 2005. Volumes in both years were impacted by low rates of take during the summer months, reflecting softer seasonal demand. Fourth quarter production in the Netherlands averaged 5,091 boe/d in 2006 compared with 5,214 boe/d during the same period in 2005, reflecting normal production declines offset in part by a contract reallocation gain. A further 15% decline in production is projected for 2007, which could be offset by successful drilling operations and improved seasonal demand next summer. A recent pipeline expansion from the Netherlands to the UK could dampen the sharp drop in summer demand that the Trust has experienced over the past two years.

Australia production averaged 3,815 boe/d in 2006, compared to a full year average of 3,391 in 2005. Volumes in 2005 reflected only nine months of production following the acquisition on March 31, 2005, while 2006 volumes were impacted by storm related shut-downs during the first quarter and operations related shut-downs in the second half of 2006. Production during the fourth quarter of 2006 averaged 3,775 boe/d, compared to 4,294 boe/d during the same period in 2005. Much of the facility expansion work on the Wandoo platform was completed during the fourth quarter of 2006, requiring a temporary shut-down of production. Scheduled well interventions and additional facility modifications are expected to improve production from Australia in 2007.

	Year Ended December 31, 2006			Year Ended December 31, 2005			Year Ended December 31, 2004		
	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)
Vermilion Energy Trust									
Canada	4,011	40.99	10,843	4,870	38.39	11,268	5,723	46.38	13,453
France [3]	7,576	1.35	7,800	5,478	1.30	5,695	5,763	1.53	6,018
Netherlands [1]	31	29.47	4,943	28	28.70	4,812	13	21.03	3,519
Australia [2]	3,815	-	3,815	3,391	-	3,391	-	-	-
Total	15,433	71.81	27,401	13,767	68.39	25,166	11,499	68.94	22,990

1 Effective from May 19th, 2004

2 Effective from March 31, 2005

3 Vermilion Emeraude Rep SAS effective from July 10, 2006

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

1 Vermilion Emeraude Rep SAS effective from July 10, 2006

2005 Quarterly Production (boe/d)	Q1	Q2	Q3	Q4
Canada	11,978	10,996	11,075	11,035
France	5,559	5,260	5,856	6,096
Netherlands	5,225	3,789	5,018	5,214
Australia [1]	-	4,498	4,710	4,294
Total	22,762	24,543	26,659	26,639

1 Effective from March 31, 2005

CAPITAL EXPENDITURES

Capital spending for the year totaled $332.8 million compared to $300.1 million spent in 2005. Of this total, approximately $169.4 million relates to the acquisition in France, $26.4 million relates to a number of minor property acquisitions with the remainder spent on drilling and development activities.

Capital Expenditures ($000's)	2006	2005	2004
Land	$ 2,025	$ 2,233	$ 493
Seismic	2,555	12,116	787
Drilling and completion	48,559	43,929	34,469
Production equipment and facilities	58,160	25,111	15,757
Recompletions	15,280	21,163	9,999
Capitalized exploration administration and other	10,360	8,978	5,754
Drilling and development expenditures	136,939	113,530	67,259
Property acquisitions (dispositions)	26,435	94,967	93,990
Corporate acquisitions	169,445	91,613	-
	$332,819	$300,110	$161,249

Capital Expenditures by Country ($000's)	2006	2005	2004
Canada	$111,216	$141,022	$ 31,722
France	209,364	50,649	35,028
Netherlands	3,673	12,434	94,499
Australia	8,566	96,005	-
	$332,819	$300,110	$161,249

FINANCIAL REVIEW

The Trust (excluding Verenex Energy Inc. "Verenex") generated funds from operations of $342.5 million ($4.86 per unit) in the year ended December 31, 2006 compared to $277.2 million ($4.07 per unit) in 2005. The full year distributions in 2006 totaled $130.6 million ($2.04 per unit) compared to $126.2 million in 2005. This represents a payout ratio of approximately 38% of total cash flow before the impact of the Trust's distribution reinvestment program ("DRIP"), which generated $18.8 million of cash to the Trust as unitholders reinvested their monthly distributions in additional units of the Trust at 95% of the weighted average trading price. After accounting for the DRIP, the resulting distribution net payout ratio in 2006 was 33%.

Development capital expenditures during the year ended 2006 was $136.9 million. Vermilion continued to take advantage of strong cash flow driven by high commodity prices to inject a further $9.6 million into the Trust's reclamation fund during the year, increasing the fund balance to $56.4 million, which represents 44% of the present value of the Trust's asset retirement obligations. Vermilion is committed to maintaining a source of funds available for abandonment and reclamation activities, such that future distribution and capital program decisions will not be impacted by these liabilities. Vermilion's net debt as of December 31, 2006 was $355 million, approximately 1.0 times trailing cash flow.

CASH FLOW NETBACKS

Cash flow was $342.5 million in 2006, up from $278.2 million in 2005. A higher average wellhead price was recorded in 2006 as a result of a 17% increase in average WTI pricing compared with 2005, offset by a decrease in gas prices. Cash flow also increased year over year due to a decrease in hedging costs.

2006 Cash Flow ($/boe)	Q1	Q2	Q3	Q4	2006	2005	2004
Oil and gas revenues	$62.37	$63.80	$64.00	$57.47	$61.80	$57.94	$43.21
Realized hedging (losses) gain	(0.04)	(0.13)	(0.17)	0.23	(0.02)	(4.46)	(3.73)
Royalties (net)	(10.02)	(9.45)	(8.29)	(9.23)	(9.22)	(9.54)	(7.54)
Transportation	(1.04)	(1.07)	(1.06)	(1.03)	(1.05)	(0.99)	(1.17)
Lifting costs	(8.62)	(9.25)	(10.03)	(10.52)	(9.65)	(7.89)	(6.63)
Operating netbacks	42.65	43.90	44.45	36.92	41.86	35.06	24.14
General and administration	(1.29)	(1.66)	(2.12)	(1.27)	(1.58)	(1.43)	(1.59)
Interest	(0.99)	(1.44)	(1.65)	(2.50)	(1.68)	(0.69)	(0.37)
Current and capital taxes	(5.66)	(6.83)	(4.96)	(0.27)	(4.29)	(2.71)	(2.03)
Foreign exchange	0.29	(0.80)	0.02	0.18	(0.06)	(0.08)	0.04
Cash flow netbacks	$35.00	$33.17	$35.74	$33.06	$34.25	$30.15	$20.19

2005 Cash Flow ($/boe)	Q1	Q2	Q3	Q4
Oil and gas revenues	$53.36	$52.90	$61.42	$62.87
Realized hedging losses	(3.98)	(4.29)	(5.13)	(4.36)
Royalties (net)	(7.01)	(9.40)	(10.37)	(10.94)
Transportation	(1.43)	(0.96)	(0.82)	(0.81)
Lifting costs	(7.52)	(8.52)	(7.54)	(7.99)
Operating netbacks	33.42	29.73	37.56	38.77
General and administration	(1.58)	(1.65)	(1.16)	(1.39)
Interest	(0.47)	(0.54)	(0.78)	(0.90)
Current and capital taxes	(3.40)	(3.12)	(3.95)	(0.52)
Foreign exchange	(0.08)	(0.06)	(0.13)	(0.05)
Cash flow netbacks	$27.89	$24.36	$31.54	$35.91

REVENUE

Total revenues for 2006 were $618.1 million compared to $529.9 million in 2005. Vermilion's combined crude oil & NGL price was $73.71 per bbl in 2006, an increase of 14% over the $64.79 per bbl reported in 2005. The natural gas price realized in 2006 was $7.74 per mcf compared to $8.28 per mcf realized a year ago, a 7% year-over-year decrease.

In the following chart, "Derivative instruments" is the amortization of the fair value loss of Vermilion's hedges in place as of January 1, 2004.

	Year Ended December 31	
($000'S EXCEPT PER BOE)	2006	2005
Crude oil & NGL's	$415,245	$326,754
Per boe	$73.71	$64.79
Natural gas	202,827	207,902
Per mcf	$7.74	$8.28
Combined	618,072	534,656
Derivative instruments	-	(4,718)
Petroleum and natural gas revenue	$618,072	$529,938
Per boe	$61.80	$57.94

DERIVATIVE INSTRUMENTS

Vermilion continues to manage its risk exposure through prudent commodity and currency economic hedging strategies. Vermilion has the following collars and puts in place at the end of 2006:

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

The impact of Vermilion's hedging program reduced cash netbacks by $0.02 per boe on a combined basis for 2006 compared to an economic hedging cost of $4.46 per boe in 2005. Oil hedging resulted in a $1.3 million cost for 2006 or $0.13 per boe. For 2005, oil hedging resulted in a $41.6 million cost for the year or $4.51 per boe. Gas hedging costs were negligible in the year.

ROYALTIES

Total royalties, net of ARTC, decreased to $9.22 per boe in 2006 or 15% of sales compared with $9.54 per boe in 2005 or 17% of sales. The decrease is due to the impact of lower gas prices. In France, royalties for the most part are calculated on a unit of production basis and rates do not react to price changes, therefore as prices increase, the royalties, as a percentage of sales, decline. In Australia, royalties are reduced by capital reinvestment in the country. For 2006, Vermilion's capital program in Australia was minimal resulting in the Trust paying royalties at or near the maximum rate.

	Year Ended December 31	
($000'S EXCEPT PER BOE)	2006	2005
Crude oil & NGL's	$70,941	$61,322
Per boe	$12.59	$12.16
Natural gas	21,271	26,679
Per mcf	$0.81	$1.06
Combined	$92,212	$88,001
Per boe	$9.22	$9.54

OPERATING COSTS

Operating costs increased to $9.65 per boe in 2006 from $7.89 per boe in 2005. The increase in the dollar amount of operating costs over 2005 reflects the inclusion of a full year of expenses related to higher cost assets in Australia which were acquired in the first quarter of 2005. In Canada, significant activity levels in the industry combined with increased energy costs, have placed an upward pressure on costs. When combined with a reduction in production volumes due primarily to plant turnarounds, year over year increases in costs per boe have resulted. In France, operating costs are up slightly due to the higher cost assets associated with the acquisition of Vermilion Emeraude Rep SAS. In the Netherlands, operating costs increased slightly due primarily to unplanned plant maintenance. Cost of operations in Australia are up significantly due to increased labour costs, unplanned diesel purchases for gas lift purposes and the effect of lower volumes.

	Year Ended December 31	
($000'S EXCEPT PER BOE)	2006	2005
Crude oil & NGL's	$54,494	$39,060
Per boe	$9.67	$7.75
Natural gas	41,998	33,796
Per mcf	$1.60	$1.35
Combined	$96,492	$72,856
Per boe	$9.65	$7.89

TRANSPORTATION

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

The increase in transportation costs in the year is due to the purchase of Vermilion Emeraude Rep SAS as the resulting incremental volumes are transported by tanker in France.

	Year Ended December 31	
($000'S EXCEPT PER BOE)	2006	2005
Transportation	$10,504	$9,136
Per boe	$1.05	$0.99

GENERAL AND ADMINISTRATION EXPENSE

General and administration expense for the year increased to $1.58 per boe in 2006 from $1.43 per boe in 2005. The increase per boe is primarily a result of increased staffing levels combined with increased staff retention costs and increased regulatory compliance costs year over year.

	Year Ended December 31	
($000'S EXCEPT PER BOE)	2006	2005
General and administration	$15,839	$13,241
Per boe	$1.58	$1.43

UNIT COMPENSATION EXPENSE

A non-cash trust unit compensation expense of $2.44 per boe was recorded in 2006 compared to $1.52 per boe in 2005. This non-cash amount relates to the value attributable to long-term incentives granted to officers, directors and employees under the Trust Unit Rights Incentive Plan ("Unit Rights Plan") and the Trust Unit Award Plan ("Award Plan").

The year over year increase reflects the transition from the Unit Rights Plan to the Award Plan. Vermilion finished in the top quartile of its peer group in 2006 based on total returns which effectively doubles the units received under the Award Plan in the year.

In September 2006, the Board of Directors approved a new long-term incentive plan for certain employees not eligible to participate in the Award Plan, which provides for cash payments based on the fair 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. Expense associated with this unit based compensation plan is excluded from unit compensation expense on the statements of earnings and the table below.

	Year Ended December 31	
($000'S EXCEPT PER BOE)	2006	2005
Unit compensation expense	$24,383	$14,000
Per boe	$2.44	$1.52

INTEREST EXPENSE

Interest expense increased to $1.55 per boe in 2006 from $0.69 per boe in 2005 as a result of higher average debt levels. Debt levels are higher in 2006 primarily stemming from the purchase of the Australia assets in the first quarter of 2005, the Glacier acquisition in December 2005 and the acquisition of Vermilion Emeraude Rep SAS in July of 2006. The Trust's interest rates have remained steady over the year.

	Year Ended December 31	
($000'S EXCEPT PER BOE)	2006	2005
Interest	$15,433	$6,331
Per boe	$1.55	$0.69

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

Depletion, depreciation and accretion expense increased to $16.23 per boe in 2006 from $13.23 per boe in 2005. The increase is due mainly to the increase of finding and development costs in Canada and France and the increase in the asset retirement obligation resulting primarily from the France acquisition.

	Year Ended December 31	
($000'S EXCEPT PER BOE)	2006	2005
Depletion, depreciation and accretion	$162,254	$122,098
Per boe	$16.23	$13.23

TAXES

The Trust's current tax provision has increased to $4.29 per boe in 2006 from $2.71 per boe in 2005 and is due primarily to higher commodity prices in the taxable jurisdictions. The recovery in future income taxes is a result of the taxable portion of distribution payments made to unitholders. In the Trust's structure, payments are made between the operating company and the Trust transferring both income and future income tax liability to the unitholder. Therefore it is the opinion of management that no cash income taxes in Canada are expected to be paid by the operating company in the future, and as such, the future income tax liability recorded on the balance sheet related to Canadian operations will be recovered through earnings over time.

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

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

The foregoing discussion on the proposed legislation is a general assessment of the impact on Vermilion and is not meant to be exhaustive or definitive. The impact of the recent proposals on Vermilion will not be known, however, until the government has enacted final legislation.

($000'S EXCEPT PER BOE)	Year Ended December 31 2006	2005
Current and capital tax	$42,876	$25,007
Per boe	$4.29	$2.71

FOREIGN EXCHANGE

A combined realized and unrealized foreign exchange loss of $1.30 per boe was recorded in 2006 with a gain of $1.16 per boe in 2005. The loss for the year ended December 31, 2006 is mostly due to the impact of the weakening of the Canadian dollar on foreign currency denominated liabilities.

($000'S EXCEPT PER BOE)	Year Ended December 31 2006	2005
Foreign exchange loss (gain)	$12,997	$(10,727)
Per boe	$1.30	$(1.16)

EARNINGS

Net earnings from continuing operations in the year decreased to $146.9 million or $2.30 per unit from $158.5 million or $2.57 per unit in 2005. The decrease in earnings is due mainly to increased compensation expense and an increase in foreign exchange loss.

LIQUIDITY AND CAPITAL RESOURCES

Vermilion's debt (net of working capital) on December 31, 2006 was $354.8 million. 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.

Liquidity and Capital Resources	2006	2005	2004
Debt and working capital ($m)	$354,809	$245,430	$ 84,686
Bank facility ($m)	$500,000	$410,000	$240,000
Unused bank facility ($m)	$145,191	$164,570	$155,314
Debt-to-cash-flow ratio [1]	1.04	0.88	0.50
Debt-to-equity ratio [1]	0.66	0.54	0.22

[1] Debt includes working capital

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

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

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

RECLAMATION FUND

Vermilion has established a reclamation fund for the ultimate payment of environmental and site restoration costs on its asset base. The reclamation fund will be funded by Vermilion Resources Ltd. and/or its operating subsidiaries. Additions in 2006 totalled $9.6 million. Contribution levels to the reclamation fund are reviewed on a regular basis and are adjusted when necessary to ensure reclamation obligations associated with the Trust's assets will be substantially funded when the costs are forecast to be incurred.

ASSET RETIREMENT OBLIGATION

At December 31, 2006, Vermilion had recorded an asset retirement obligation of $127.5 million for future abandonment and reclamation of its properties compared to $70.2 million in 2005. The increase is primarily due to the liabilities recorded related to the acquisition in France and adjustment to previous abandonment estimates related to the Trust's existing Netherlands and France operations.

DISTRIBUTIONS

Vermilion maintained monthly distributions at $0.17 per unit for the year distributing a total of $130.6 million compared to $126.2 million in 2005 before the impact of the Trust's DRIP program. Vermilion has maintained its distributions at $0.17 per month since its conversion to a trust, resulting in 47 continuous months of distributions at this level to the end of 2006. Of the distributions paid in the year, approximately 100% will be taxed in the hands of taxable Canadian unitholders' as other income. The Trust defines distributable income as funds from operations. For 2006, the Trust has paid out 38% of its distributable income (46% in 2005) before taking into account the Trust's DRIP program.

UNITHOLDERS' EQUITY

During the year approximately 2.2 million units were issued pursuant to the terms of the Trust's bonus plan, unitholders' participation in the distribution reinvestment plan, the conversion of exchangeable shares and unit rights exercised. Unitholders' capital increased during the year by $37.8 million as a result of the issuance of those units and $8.4 million as a result of contributed surplus transfer on exercise of unit rights. This increase in equity was offset by cash distributions of $130.6 million in the year.

NON-CONTROLLING INTEREST – EXCHANGEABLE SHARES

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

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

The non-controlling interest in 2006 of $51.8 million ($38.8 million in 2005) on the consolidated balance sheet represents the book value of exchangeable shares plus accumulated earnings attributable to the outstanding exchangeable shares. The reduction in 2006 and 2005 net income, respectively, of $14.9 million and $14.4 million, represents the net income attributable to the exchangeable shareholders. Upon conversion of the exchangeable shares, the fair value of the trust units issued is recorded in unitholders' capital, and the difference between the carrying value of the non-controlling interest and the fair value of the trust units is recorded as capital assets or goodwill, as appropriate.

As at December 31, 2006 there were 4.5 million exchangeable shares outstanding at exchange ratio of 1.46741 whereby 6.5 million trust units would be issuable upon conversion.

RISK MANAGEMENT

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

Vermilion considers its commodity price risk management program as a form of insurance that protects its cash flow and rate of return. The primary objective of the risk management program is to support Vermilion's distributions and its internal capital development program. Maintenance of a strong financial position and a stable cash flow stream through the development of long-life reserves is key to mitigating business risks.

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

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

CURRENCY RISK

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

CRITICAL ACCOUNTING ESTIMATES

The amounts recorded for depletion and depreciation of property, plant and equipment and the provision for future asset retirement obligations are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. 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.

SENSITIVITIES

Crude oil and natural gas prices may change significantly because of factors Vermilion cannot control. The following table provides a summary of estimated sensitivities to price fluctuations for pro-forma production levels and expenses for the year ended December 31, 2007.

	Cash Available for Distributions Per Unit and Exchangeable Shares	Cash Available for Distributions
Change in crude oil price by Cdn$1.00/bbl	$ 0.06	$ 4.2 million
Change in natural gas price by Cdn$0.10/mcf	$ 0.02	$ 1.3 million
Change in interest rate by one point	$ 0.03	$ 2.0 million
Change in Cdn/U.S. foreign exchange rate by one point	$ 0.05	$ 3.5 million
Change in Cdn/Euro foreign exchange rate by one point	$ 0.01	$ 0.8 million

OFF BALANCE SHEET ARRANGEMENTS

The Trust has certain lease agreements that are entered into in the normal course of operations. All leases are operating leases whereby the lease payments are included in operating expenses or G&A expenses depending on the nature of the lease. No asset or liability value has been assigned to these leases in the balance sheet as of December 31, 2006.

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

ENVIRONMENT, HEALTH AND SAFETY

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

In 2006, Vermilion remained committed to the principles of the Environment, Health and Safety Stewardship Program set out by the Canadian Association of Petroleum Producers (CAPP). This voluntary initiative promotes continual improvement in the areas of environment, health and safety performance, supplemented by progress reports to stakeholders.

Vermilion continued its commitment to protect land, water and air, as policies and procedures, demonstrating leadership in these areas, were maintained and further developed in 2006. Examples of accomplishments during the year included:

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

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

RECENT CANADIAN ACCOUNTING AND RELATED PRONOUNCEMENTS

Convergence of Canadian GAAP with International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public entities, being converged with International Financial Reporting Standards over a transitional period. The Accounting Standards Board is expected to develop and publish a detailed implementation plan with a transition period expected to be approximately five years. This convergence initiative is in its early stages as of the date of these annual consolidated financial statements and the Trust also has the option to adopt U.S. GAAP at any time prior to the expected conversion date. Accordingly, it would be premature to assess the impact of the initiative, if any, on the Trust at this time.

Financial Instruments, Comprehensive Income and Hedges

The Accounting Standards Board (AcSB) has issued five new accounting standards relating to the recognition, measurement, disclosure and presentation of financial instruments. The new standards comprise five handbook sections:

CICA Section 3855 – Financial Instruments – Recognition and Measurement
This standard establishes the criteria for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Specifically, it requires that all financial assets be measured at fair value, with some exceptions such as loans and investments that are classified as held to maturity. All financial liabilities are measured at fair value if they are derivatives or classified as held for trading purposes and other financial liabilities are measured at their carrying value. Derivative financial instruments are measured at fair value, even when they are part of a hedging relationship.

CICA Section 3865 – Hedges
This standard provides optional alternative treatment to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It will replace Accounting Guideline 13 (AcG 13) – *Hedging Relationships*, and build on Section 1560 – *Foreign Currency Translation*, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. Retroactive application of this Section is not permitted.

CICA Section 1530 – Comprehensive Income
This standard introduces a new requirement to temporarily present certain gains and losses as part of a new earnings measurement called comprehensive income.

CICA Section 3862 – Financial Instruments – Disclosures

This standard requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments to the entity's financial position and performance. It also requires that entities disclose the nature and extent of risks arising from financial instruments and how the entity manages those risks.

CICA Section 3863 – Financial Instruments – Presentation

This standard establishes presentation guidelines for financial instruments and non-financial derivatives and deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

CICA sections 3855, 3865 and 1530 are effective for annual and interim periods in fiscal years beginning on or after October 1, 2006. Upon adoption of these sections the carrying value of the Trust's investments in publicly traded marketable securities will increase by approximately $7.2 million with the offset recorded to opening accumulated earnings. Future gains and losses associated with these investments will be reflected in net earnings.

CICA sections 3862 and 3863 are effective for annual and interim periods beginning on or after October 1, 2007.

Accounting Changes

The AcSB issued CICA Section 1506, *Accounting Changes*. The standard prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors. The standard requires the retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impractical to determine either the period-specific effects or the cumulative effect of the change. Application is on a prospective basis and is effective for changes in accounting policies and estimates and correction of errors made in fiscal years beginning on or after January 1, 2007.

We do not expect the adoption of this standard will have any material impact on our results of operations or financial position.

Variable Interest Entities

The Emerging Issues Committee (EIC) issued EIC Abstract 163 – Determining the Variability to be Considered in Applying AcG 15. This Abstract, which is harmonized with the equivalent United States FASB Staff Position (FSP) FIN 46(R) – 6 – Determining the Variability to be Considered in Applying FASB Interpretation No. 46(R), provides guidance on how an entity should determine the variability to be considered in applying AcG 15 – Consolidation of Variable Interest Entities. The Abstract is to be applied prospectively to all entities with which an enterprise first becomes involved and to all entities previously required to be analyzed under AcG 15 when a reconsideration event has occurred beginning the first day of the first reporting period beginning on or after January 1, 2007.

We do not expect the adoption of this standard will have any material impact on our results of operations or financial position.

CORPORATE GOVERNANCE

Vermilion is committed to a high standard of corporate governance practices, a dedication that begins at Board level and extends throughout the Trust. We believe good corporate governance is in the best interest of our unitholders, and that successful companies are those that deliver growth and a competitive return along with a commitment to the environment, to the communities where they operate and to their employees. We comply with the objectives and guidelines relating to corporate governance adopted by the Toronto Stock Exchange. In addition, the Board monitors and considers the implementation of corporate governance standards proposed by various regulatory and non-regulatory authorities in Canada. A full examination of our corporate governance policies will be provided in our annual Information Circular, which will be filed on SEDAR (www.sedar.com) and mailed to all unitholders on or before March 31, 2007.

DISCLOSURE CONTROLS AND PROCEDURES

Vermilion's officers have established and maintained disclosure controls and procedures and evaluated the effectiveness of these controls in conjunction with the Trust's filings.

As of December 31, 2006 the Trust has evaluated the effectiveness of the design and operation of the Trust's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded and certified that the Trust's disclosure controls and procedures are effective.

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

SARBANES OXLEY UPDATE

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

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

In accordance with guidance from the U.S. Securities and Exchange Commission, the Trust excluded from its 2006 evaluation an assessment of the internal control over financial reporting relating to the Vermilion Emeraude Rep SAS operations, which was acquired on July 10, 2006 and whose financial statements constitute 21 percent and 14 percent of net and total assets, respectively, 8 percent of revenues, and 5 percent of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2006.

The Trust's Management, together with its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's system of internal control over financial reporting. Based on this evaluation, management concluded that the Trust's system of internal control over financial reporting was effective as of December 31, 2006.

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

MANAGEMENT'S REPORT TO UNITHOLDERS

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

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

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

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

("Lorenzo Donadeo")

Lorenzo Donadeo
President & Chief Executive Officer
March 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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