VERMILION ENERGY TRUST

# VERMILION ENERGY TRUST

# MANAGEMENT'S DISCUSSION AND ANALYSIS

### Forward-looking information

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

Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in the Trust's securities should not place undue reliance on these forward-looking statements. Forward looking statements contained in this document are made as of the date hereof and are subject to change. The Trust assumes no obligation to revise or update forward looking statements to reflect new circumstances, except as required by law. Certain natural gas volumes have been converted on the basis of six thousand cubic feet of gas to one barrel equivalent of oil. Barrels of oil equivalent (boe's) may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

# Q1

**FOR THE THREE MONTHS ENDED MARCH 31, 2008**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis (MD&A) dated May 1, 2008 of Vermilion's operating and financial results for the quarter ended March 31, 2008 compared with the corresponding period in the prior year. This discussion should be read in conjunction with the unaudited interim consolidated financial statements for the period ended March 31, 2008 and the Trust's audited consolidated financial statements for the years ended December 31, 2007 and 2006, together with accompanying notes, as contained in the Trust's 2007 Annual Report.

NON-GAAP MEASURES

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

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

| ($000's) | Three Months Ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Cash flows from operating activities | $164,727 | $89,236 |
| Changes in non-cash operating working capital | (46,480) | (14,134) |
| Asset retirement costs incurred | 1,149 | 836 |
| Fund flows from operations | $119,396 | $75,938 |

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

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

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

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

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

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

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

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

## FORWARD-LOOKING INFORMATION

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

## OPERATIONAL ACTIVITIES

### Canada

In Canada, the Trust participated in the drilling of 22 wells (19.1 net) during the first quarter of 2008, resulting in 8 gas wells (6.3 net), 2 oil wells (2.0 net), 1 abandoned well (1.0 net) and 11 standing wells (9.8 net) awaiting tie-in. The total wells include 17 CBM and shallow gas wells (15.6 net). The abandoned well was a dry hole at Utikuma, while two successful oil wells at Utikuma were brought on stream at a combined rate of over 200 bbls/d.

### France

In France, Vermilion reinstated service to the Parentis-Ambès pipeline using temporary storage facilities at the Ambès terminal and a shuttle tanker to transport the oil to refineries at Donges. The refurbishment of Vermilion's main tanks at the Ambès terminal is underway and full 'normal' service at the terminal should resume early in 2009. This ends the truck transportation program in southern France, reducing costs and future environmental risk.

The seismic program at Cazaux began during the first quarter which should provide better definition of this reservoir and expand the number of drillable prospects available to Vermilion. A permitting process is underway that would accommodate the Trust's plans to drill 8 to 12 wells in France in 2009. Vermilion is also participating with TOTAL in a pilot $CO_2$ flood of the Vic Bihl Field in southern France in which Vermilion holds a 27% interest. Information gathered from this program will be beneficial towards the development of future enhanced oil recovery initiatives in France.

### Netherlands

Activities in the Netherlands focused on the tie-in of wells drilled in 2007 and further optimization of processing facilities at Harlingen. Efforts over the balance of the year will focus on permitting new wells for the 2009 drilling program. Subject to receipt of all approvals, Vermilion hopes to drill 4 to 6 wells in the Netherlands next year.

### Australia

Operations were interrupted by two cyclones as well as by downtime to replace a gas lift compressor. Cyclone season in Australia occurs during the first quarter and as such, we do not anticipate any further major production interruptions and activities will focus on drilling preparations for later this year.

## PRODUCTION

Average production in Canada during the first quarter of 2008 was 4,165 bbls/d of oil and NGL's and 51.4 mmcf/d of natural gas (12,730 boe/d) compared to 4,047 bbls/d of oil and NGL's and 48.1 mmcf/d of natural gas (12,065 boe/d) in the fourth quarter of 2007. The announced increase in the development capital program is expected to mitigate declines from our Canadian operations.

Production in France averaged 8,800 boe/d in the first quarter of 2008, slightly below the 8,946 boe/d produced in the fourth quarter of 2007. Higher workover activity levels combined with modest drilling in the second half of 2008 are expected to sustain production over the balance of the year at current levels.

Production in the Netherlands averaged 5,096 boe/d in the first quarter of 2008, an increase of 628 boe/d over fourth quarter 2007 production of 4,468. Production is expected to decline slightly over the balance of the year reflecting normal declines.

Production in Australia averaged 6,446 boe/d in the first quarter of 2008 as compared to 7,591 boe/d in the fourth quarter of 2007. Recent production volumes have averaged approximately 7,500 boe/d and should decline from these levels over the balance of 2008, until the new scheduled wells are completed near year-end.

Production

| | Three Months Ended March 31, 2008 | | | | Three Months Ended March 31, 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Oil & NGLs (bbls/d) | Natural Gas (mmcf/d) | Total (boe/d) | % | Oil & NGLs (bbls/d) | Natural Gas (mmcf/d) | Total (boe/d) | % |
| Canada | 4,165 | 51.39 | 12,730 | 38 | 4,104 | 47.70 | 12,054 | 41 |
| France | 8,605 | 1.17 | 8,800 | 27 | 7,890 | 0.99 | 8,055 | 28 |
| Netherlands | 19 | 30.46 | 5,096 | 15 | 84 | 28.02 | 4,754 | 16 |
| Australia | 6,446 | - | 6,446 | 20 | 4,227 | - | 4,227 | 15 |
| Total | 19,235 | 83.02 | 33,072 | 100 | 16,305 | 76.71 | 29,090 | 100 |

## CAPITAL EXPENDITURES

Capital spending for the first three months of 2008 totalled $81.9 million compared to $39.9 million spent in the first three months of 2007. The 2008 figure includes $44.1 million associated with the acquisition of properties in the Drayton Valley area.

| ($000's) | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| Land | $ 454 | $ 500 |
| Seismic | 3,013 | 335 |
| Drilling and completion | 14,520 | 15,996 |
| Production equipment and facilities | 12,292 | 13,304 |
| Recompletions | 2,824 | 5,635 |
| Other | 4,286 | 3,984 |
| | 37,389 | 39,754 |
| Acquisitions | 44,528 | 126 |
| Total | $81,917 | $39,880 |

## FINANCIAL REVIEW

The Trust generated fund flows from operations of $119.4 million ($1.59 per unit) in the first quarter of 2008, compared to $75.9 million ($1.06 per unit) in the first quarter of 2007. Production volumes were 14% higher in the first quarter of 2008 compared to last year's period, and realized commodity prices were 34% higher than in the first quarter of 2007.

Cash distributions as a percentage of fund flows from operations was 32.7% before the impact of the Trust's distribution reinvestment program ("DRIP"), which generated $10.7 million of cash to the Trust. Unitholders reinvest their monthly distributions to receive additional trust units equal to 5% of the DRIP units purchased with their distributions. After accounting for the DRIP, cash distributions as a percentage of fund flows from operations was 23.8%. This compares to cash distributions as a percentage of fund flows from operations of 43.7% before the impact of the DRIP and 33.5% after the impact of the DRIP in the first quarter of 2007.

Development capital expenditures during the first quarter of 2008 were $37.4 million. The total of net distributions (after DRIP), capital expenditures, reclamation fund contributions and asset retirement costs incurred represented 56.1% of fund flows from operations in 2008 as compared to 87.0% for the same period of the prior year.

Vermilion's net debt was $397.5 million at the end of the first quarter, compared with $416.9 million at the end of 2007. Vermilion was able to execute a $37.4 million development capital program, acquire $44.5 million of producing properties, declare over $28.4 million in net cash distributions, increase its equity position in Verenex by over $0.6 million and still increase the strength of its financial position. The net debt at the end of the first quarter of 2008 was only 0.8 times annualized first quarter 2008 fund flows from operations.

## REVENUE

Total revenues in the first quarter of 2008 were $229.5 million compared to $148.8 million in the first quarter of 2007. Vermilion's combined crude oil and NGL price was $93.75 per boe in the first quarter of 2008, an increase of 45% over the $64.84 per boe reported in the first quarter of 2007. The natural gas price realized was $8.65 per mcf in the first quarter of 2008 compared to $7.77 per mcf in the first quarter of 2007, an 11% increase year over year. The prices realized in the quarter benefited from continued strengthening of oil and gas reference prices. Increased production and higher realized prices resulted in higher revenue year over year.

| ($000's except per boe and per mcf) | Three Months Ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Crude oil and NGL's | $164,102 | $ 95,155 |
| Per boe | $93.75 | $64.84 |
| Natural gas | 65,357 | 53,653 |
| Per mcf | $8.65 | $7.77 |
| Petroleum and natural gas revenue | $229,459 | $148,808 |
| Per boe | $76.24 | $56.83 |

## DERIVATIVE INSTRUMENTS

Vermilion continues to manage its risk exposure through prudent commodity and currency economic hedging strategies. Vermilion has the following financial derivatives in place at March 31, 2008:

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

The impact of Vermilion's economic hedging program in the first quarter of 2008 decreased cash netbacks by $0.73 per boe as the price of oil exceeded the ceiling of the Trust's collars. This compares to a hedging gain of $0.31 per boe in the first three months of 2007.

## ROYALTIES

Total royalties increased to $12.18 per boe or 16% of sales in the first quarter of 2008, compared with $6.76 per boe or 12% of sales in the first quarter of 2007.

In Australia, royalties are reduced by capital reinvestment in the country and the year over year increase in royalties is largely due to reduced levels of capital activity in Australia in the first quarter of 2008. Royalties in Canada, which are paid on a sliding scale basis, were relatively consistent year over year. Royalties did not change substantially in France, where for the most part, royalties are calculated on a unit of production basis. Production in the Netherlands is not subject to royalties.

| ($000's except per boe and per mcf) | Three Months Ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Crude oil and NGL's | $28,580 | $10,878 |
| Per boe | $16.33 | $7.41 |
| Natural gas | 8,083 | 6,822 |
| Per mcf | $1.07 | $0.99 |
| Combined | $36,663 | $17,700 |
| Per boe | $12.18 | $6.76 |

## OPERATING COSTS

Operating costs increased to $11.08 per boe in the first quarter of 2008 from $10.40 per boe in the first quarter of 2007. The increase in the dollar amount of operating costs over 2007 reflects the inclusion of expenses associated with the mid-2007 acquisition of the remaining 40% interest in the Wandoo Field in offshore Australia. On a per boe basis, operating costs in Canada have increased year over year and are relatively consistent with the costs per boe noted during the last three quarters of 2007. In France and the Netherlands, per unit costs have remained relatively consistent year over year. Costs of operations in Australia, per unit, have decreased year over year due primarily to lower diesel consumption and a deferral of costs related to facility maintenance which is scheduled for later in the year.

($000's except per boe and per mcf)

| | Three Months Ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Crude oil and NGL's | $19,682 | $16,502 |
| Per boe | $11.24 | $11.24 |
| Natural gas | 13,673 | 10,739 |
| Per mcf | $1.81 | $1.56 |
| Combined | $33,355 | $27,241 |
| Per boe | $11.08 | $10.40 |

## TRANSPORTATION

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

Transportation costs in France have increased as a result of the oil spill at the Ambès terminal that occurred in January 2007 as Vermilion incurred additional costs to transport some of its production to port by truck. In early March 2008, Vermilion resumed transporting crude to the Ambès terminal via pipeline and all trucking operations have officially ceased. As a result of the limited capacity of the storage tank rented at the terminal, a vessel has been retained on a full-time basis and serves as a temporary storage tank when not transporting product to the refinery. Transportation costs in France will continue to be higher than pre-January 2007 levels until full resumption of terminal operations occurs.

($000's except per boe)

| | Three Months Ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Transportation | $6,451 | $4,135 |
| Per boe | $2.14 | $1.58 |

## GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses in the first quarter of 2008 decreased to $1.64 per boe from $2.15 per boe in the first quarter of 2007. The decrease per boe is primarily a result of increased production levels.

| ($000's except per boe) | Three Months Ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| General and administration | $4,933 | $5,640 |
| Per boe | $1.64 | $2.15 |

## UNIT BASED COMPENSATION EXPENSE

A non-cash trust unit compensation expense of $1.63 per boe was recorded in the first quarter of 2008 compared to $2.06 per boe in the first quarter of 2007. This non-cash amount relates to the value attributable to long-term incentives granted to officers, directors and employees under the Trust Unit Rights Incentive Plan and the Trust Unit Award Incentive Plan.

| ($000's except per boe) | Three Months Ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Unit compensation expense | $4,901 | $5,392 |
| Per boe | $1.63 | $2.06 |

## INTEREST EXPENSE

Interest expense increased to $2.04 per boe in the first quarter of 2008 from $1.76 per boe in the first quarter of 2007. Quarter over quarter debt levels are higher in 2008 stemming from the Australia acquisition that closed in the second quarter of 2007 and the property acquisition that closed in the first quarter of 2008. The Trust's interest rates have remained relatively consistent year over year.

| ($000's except per boe) | Three Months Ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Interest | $6,140 | $4,613 |
| Per boe | $2.04 | $1.76 |

## DEPLETION, DEPRECIATION AND ACCRETION EXPENSES

Depletion, depreciation and accretion expenses increased to $20.76 per boe in the first quarter of 2008 compared to $17.44 per boe in the first quarter of 2007. The increase is due mainly to higher finding and development costs in Canada and France as well as the increase in the asset retirement obligation resulting primarily from the Australia acquisition in mid-2007.

| ($000's except per boe) | Three Months Ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Depletion, depreciation and accretion | $62,486 | $45,664 |
| Per boe | $20.76 | $17.44 |

## TAXES

The Trust's current tax provision has increased to $6.94 per boe in the first quarter of 2008 from $5.37 per boe in the first quarter of 2007. The increase relates to higher revenues achieved as a result of strengthening commodity prices. Current taxes are significantly higher than those recorded in the fourth quarter of 2007 as there were certain non-recurring tax deductions during that period.

($000's except per boe)

| | Three Months Ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Current taxes | $20,871 | $14,068 |
| Per boe | $6.94 | $5.37 |

## FOREIGN EXCHANGE

A combined realized and unrealized foreign exchange loss of $9.18 per boe was recorded in the first quarter of 2008 compared with a loss of $0.20 per boe in the first quarter of 2007. The first quarter 2008 loss is comprised of a realized gain of $0.6 million offset by an unrealized, non-cash loss of $28.2 million. This unrealized loss is related to the translation of foreign currency denominated future income taxes and asset retirement obligations to Canadian dollars. During the quarter, the Canadian dollar weakened significantly against the Euro resulting in this unrealized loss.

($000's except per boe)

| | Three Months Ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Foreign exchange loss | $27,630 | $514 |
| Per boe | $9.18 | $0.20 |

## EARNINGS

Net earnings in the first quarter of 2008 decreased to $26.2 million or $0.38 per unit from $31.3 million or $0.48 per unit in 2007. This decrease is associated with the unrealized foreign exchange loss recorded during the quarter. Excluding the unrealized foreign exchange loss, earnings would have been $54.4 million for the first quarter of 2008 compared to $31.6 million for the first quarter of 2007. The increase in earnings excluding unrealized foreign exchange is associated with higher production and commodity price levels.

## LIQUIDITY AND CAPITAL RESOURCES

Vermilion's net debt at March 31, 2008 was $397.5 million compared to $416.9 million as at December 31, 2007.

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

In the first quarter of 2008, Vermilion purchased shares in Verenex Energy Inc. ("Verenex") for total consideration of $0.6 million. After reflecting these additional shares, Vermilion owns 18.8 million shares representing 42.4% of the outstanding shares of Verenex.

## RECLAMATION FUND

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

## ASSET RETIREMENT OBLIGATION

At March 31, 2008, Vermilion had recorded an asset retirement obligation of $187.3 million for future abandonment and reclamation of its properties compared to $163.4 million as at December 31, 2007. The increase is due mostly to the impact of foreign exchange rate changes on non-Canadian dollar denominated obligations.

## DISTRIBUTIONS

Vermilion maintained monthly distributions at $0.19 per unit for the quarter and declared distributions totalling $39.1 million compared to $33.2 million for the same period in 2007.

Since inception, the Trust has declared $653.9 million in distributions to unitholders as compared to unitholders' capital of $423.2 million at March 31, 2008.

Sustainability of Distributions

($000's)

| | Three Months Ended March 31, 2008 | Year Ended Dec 31, 2007 | Year Ended Dec 31, 2006 | Year Ended Dec 31, 2005 |
|---|---|---|---|---|
| Cash flows from operating activities | $164,727 | $349,890 | $306,033 | $245,116 |
| Net earnings | $ 26,196 | $164,286 | $146,923 | $158,471 |
| Distributions declared | $ 39,075 | $136,389 | $130,638 | $126,190 |
| Excess of cash flows from operating activities over cash distributions declared | $125,652 | $213,501 | $175,395 | $118,926 |
| Excess (shortfall) of net earnings over cash distributions declared | $ (12,879) | $ 27,897 | $ 16,285 | $ 32,281 |

Excess of cash flows from operating activities over cash distributions declared are used to fund capital expenditures, asset retirement costs, reclamation fund contributions and debt repayments. The current quarter shortfall of net earnings over cash distributions declared is a result of the unrealized, non-cash foreign exchange loss recorded during the quarter and has no impact on distribution sustainability.

## UNITHOLDERS' EQUITY

During the first quarter 2008, approximately 2.2 million units were issued pursuant to the conversion of exchangeable shares, the Trust's bonus plan, the Trust's unit based compensation programs and unitholders' participation in the distribution reinvestment plan. Unitholders' capital increased during the same period by $25.7 million as a result of the issuance of those units and by $16.5 million as a result of contributed surplus transfer related to unit based compensation plans.

As at May 1, 2008, there were 69,671,295 trust units outstanding.

## NON-CONTROLLING INTEREST – EXCHANGEABLE SHARES

The Trust has recorded non-controlling interest attributed to the issued and outstanding exchangeable shares.

Non-controlling interest on the consolidated balance sheet represents the book value of exchangeable shares plus accumulated earnings attributable to the outstanding exchangeable shares. The reduction in net income represents the net income attributable to the exchangeable shareholders for the period. As the exchangeable shares are converted to trust units, Unitholders' capital is increased for the fair value of the trust units issued. As the exchangeable shares are exchanged for trust units over time, the non-controlling interest will decrease and eventually will be nil when all exchangeable shares have been exchanged for trust units.

As at March 31, 2008 there were 4.3 million exchangeable shares outstanding at an exchange ratio of 1.58086 whereby 6.9 million trust units would be issuable upon conversion. The exchangeable shares can be converted into trust units or redeemed by the shareholder for trust units at any time. All outstanding exchangeable shares must be redeemed on or before January 22, 2013 and Vermilion may redeem the exchangeable shares at any time if the number of exchangeable shares outstanding falls below 500,000 shares. Vermilion may issue cash or trust units upon redemption of exchangeable shares and it is the intention to issue trust units upon redemption.

## CRITICAL ACCOUNTING ESTIMATES

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

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

## NEW ACCOUNTING POLICIES

On January 1, 2008, the Trust adopted Section 1535, "Capital Disclosures"; Section 3862, "Financial Instruments – Disclosures"; and Section 3863, "Financial Instruments – Presentation". The adoption of these standards did not impact the amounts reported in the Trust's consolidated financial statements however, it did result in additional note disclosures relating to the Trust's capital structure and financial instruments.

On January 1, 2008, the Trust adopted Section 3031, "Inventories." The adoption of this standard did not impact the Trust's consolidated financial statements.

## OFF BALANCE SHEET ARRANGEMENTS

The Trust has certain lease agreements that are entered into in the normal course of operations. All leases are operating leases and accordingly no asset or liability value has been assigned in the balance sheet as of March 31, 2008.

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

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

## DISCLOSURE CONTROLS AND PROCEDURES

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.

NETBACKS (6:1)

| Trust Financial Information | Three Months Ended March 31, 2008 Oil & NGLs $/bbl | Natural Gas $/mcf | Total $/boe | Three Months Ended March 31, 2007 Total $/boe |
|---|---|---|---|---|
| **Canada** | | | | |
| Price | $92.72 | $7.96 | $62.46 | $51.59 |
| Realized hedging gain or loss | - | - | - | (0.14) |
| Royalties | (16.82) | (1.73) | (12.49) | (10.27) |
| Transportation | (1.25) | (0.16) | (1.04) | (0.69) |
| Operating costs | (11.94) | (1.73) | (10.91) | (9.07) |
| Operating netback | $62.71 | $4.34 | $38.02 | $31.42 |
| **France** | | | | |
| Price | $89.29 | $9.77 | $88.61 | $63.00 |
| Realized hedging gain or loss | (2.81) | - | (2.74) | 1.31 |
| Royalties | (5.56) | 0.09 | (5.43) | (4.97) |
| Transportation | (6.69) | - | (6.55) | (4.67) |
| Operating costs | (9.69) | (3.49) | (9.94) | (9.22) |
| Operating netback | $64.54 | $6.37 | $63.95 | $45.45 |
| **Netherlands** | | | | |
| Price | $91.76 | $9.78 | $58.79 | $49.86 |
| Operating costs | - | (1.87) | (11.19) | (11.91) |
| Operating netback | $91.76 | $7.91 | $47.60 | $37.95 |
| **Australia** | | | | |
| Price | $100.37 | $ - | $100.37 | $67.87 |
| Royalties | (30.42) | - | (30.42) | (7.77) |
| Operating costs | (12.90) | - | (12.90) | (14.76) |
| Operating netback | $57.05 | $ - | $57.05 | $45.34 |
| **Total Trust** | | | | |
| Price | $93.75 | $8.65 | $76.24 | $56.83 |
| Realized hedging gain or loss | (1.26) | - | (0.73) | 0.31 |
| Royalties | (16.33) | (1.07) | (12.18) | (6.76) |
| Transportation | (3.26) | (0.10) | (2.14) | (1.58) |
| Operating costs | (11.24) | (1.81) | (11.08) | (10.40) |
| Operating netback | $61.66 | $5.67 | $50.11 | $38.40 |
| General and administration | | | (1.64) | (2.15) |
| Interest | | | (2.04) | (1.76) |
| Foreign exchange | | | 0.18 | (0.11) |
| Current taxes | | | (6.94) | (5.37) |
| Fund flows netback | | | $39.67 | $29.01 |
| Depletion, depreciation and accretion | | | (20.76) | (17.44) |
| Future income taxes | | | 0.41 | 4.26 |
| Other income or loss | | | 0.73 | 0.24 |
| Foreign exchange | | | (9.36) | (0.09) |
| Non-controlling interest - exchangeable shares | | | (0.77) | (1.21) |
| Equity in affiliate | | | - | (0.02) |
| Unrealized gain or loss on derivative instruments | | | 0.41 | (0.72) |
| Fair value of unit compensation | | | (1.63) | (2.06) |
| Earnings netback | | | $8.70 | $11.97 |

The above table includes non-GAAP measures which may not be comparable to other companies. Please see “Non-GAAP Measures” under MD&A section for further discussion.

# TRUST INFORMATION

## DIRECTORS

Larry J. Macdonald [1, 2, 3, 4, 5]
Chairman & CEO, Point Energy Ltd.
Calgary, Alberta

W. Kenneth Davidson [2,3]
Toronto, Ontario

Lorenzo Donadeo
Calgary, Alberta

Claudio A. Ghersinich
Executive Director, Carrera Investments Corp.
Calgary, Alberta

Joseph F. Killi [2, 3]
Chairman,
Parkbridge Lifestyle Communities Inc.
Vice Chairman, Realex Properties Corp.
Calgary, Alberta

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

## ABBREVIATIONS

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

## OFFICERS & KEY PERSONNEL

*CANADA*
Lorenzo Donadeo, P.Eng.
President & Chief Executive Officer

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

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

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

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

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

Paul L. Beique
Director Investor Relations

Daniel Goulet, P.Eng.
Director Production and Operations

Cheryl M. Kinzie
Director Human Resources & Administration

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

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

*NETHERLANDS*
Scott Ferguson, P.Eng.
General Manager
Vermilion Oil & Gas Netherlands B.V.

*AUSTRALIA*
Bruce D. Lake, P.Eng.
Managing Director
Vermilion Oil & Gas Australia Pty Ltd.

## AUDITORS
Deloitte & Touche LLP
Calgary, Alberta

## BANKERS
The Toronto-Dominion Bank
Calgary, Alberta

Bank of Montreal
Calgary, Alberta

BNP Paribas (Canada)
Toronto, Ontario

Royal Bank of Canada
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

Fortis Capital (Canada) Ltd.
Calgary, Alberta

Société Générale (Canada Branch)
Calgary, Alberta

Citibank Canada
Calgary, Alberta

## EVALUATION ENGINEERS
GLJ Petroleum Consultants Ltd.
Calgary, Alberta

## LEGAL COUNSEL
Macleod Dixon LLP
Calgary, Alberta

## TRANSFER AGENT
Computershare Trust Company of Canada

## STOCK EXCHANGE LISTING
The Toronto Stock Exchange
Symbol: VET.UN

## INVESTOR RELATIONS CONTACT
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