



## VERMILION ENERGY TRUST

### FINANCIAL STATEMENTS

#### **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](http://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.

# Q2

**FOR THE SIX MONTHS ENDED JUNE 30, 2008**

**Consolidated Balance Sheets**  
(\$000's unaudited)

	June 30, 2008	December 31, 2007
<b>ASSETS</b>		
Current		
Cash and cash equivalents (Note 13)	\$ 60,089	\$ 47,868
Accounts receivable	169,292	119,645
Crude oil inventory	3,392	11,033
Derivative instruments (Note 10)	-	37
Prepaid expenses and other	14,493	7,669
	<u>247,266</u>	<u>186,252</u>
Derivative instruments (Note 10)	12,734	9,515
Long-term investments (Note 12)	66,875	63,128
Goodwill	19,840	19,840
Reclamation fund (Note 4)	57,346	57,928
Capital assets	1,335,582	1,331,460
	<u>\$1,739,643</u>	<u>\$1,668,123</u>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$ 170,360	\$ 128,858
Distributions payable to unitholders	13,269	12,794
Derivative instruments (Note 10)	14,886	7,450
Income taxes payable	47,113	1,518
	<u>245,628</u>	<u>150,620</u>
Long-term debt (Note 5)	286,672	452,490
Asset retirement obligation (Note 4)	187,950	163,374
Future income taxes	225,536	205,702
	<u>945,786</u>	<u>972,186</u>
Non-controlling interest – exchangeable shares (Note 7)	79,696	68,576
<b>UNITHOLDERS' EQUITY</b>		
Unitholders' capital (Note 6)	432,165	380,941
Contributed surplus (Note 6)	20,978	29,211
Retained earnings	261,018	217,209
	<u>714,161</u>	<u>627,361</u>
	<u>\$1,739,643</u>	<u>\$1,668,123</u>

**APPROVED BY THE BOARD**

*(Signed "W. Kenneth Davidson")*

W. Kenneth Davidson, Director

*(Signed "Lorenzo Donadeo")*

Lorenzo Donadeo, Director

Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings  
(\$000's except unit and per unit amounts, unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
<b>REVENUE</b>				
Petroleum and natural gas revenue	\$341,405	\$164,862	\$570,864	\$313,670
Royalties	(56,360)	(20,590)	(93,023)	(38,290)
	<b>285,045</b>	<b>144,272</b>	<b>477,841</b>	<b>275,380</b>
<b>EXPENSES AND OTHER</b>				
Operating	33,097	27,891	66,452	55,132
Transportation	5,949	6,480	12,400	10,615
Unit based compensation (Note 8)	4,349	4,024	9,250	9,416
Loss (gain) on derivative instruments (Note 10)	11,449	(758)	12,402	305
Interest	5,134	4,735	11,274	9,348
General and administration	7,153	4,743	12,086	10,383
Foreign exchange (gain) loss	(2,381)	(12,190)	25,249	(11,676)
Other income or expense	595	38	(1,597)	(600)
Depletion, depreciation and accretion	65,151	52,560	127,637	98,224
	<b>130,496</b>	<b>87,523</b>	<b>275,153</b>	<b>181,147</b>
<b>EARNINGS BEFORE INCOME TAXES AND OTHER ITEMS</b>				
	<b>154,549</b>	<b>56,749</b>	<b>202,688</b>	<b>94,233</b>
<b>INCOME TAXES</b>				
Future	288	1,606	(952)	(9,557)
Current	41,697	9,078	62,568	23,146
	<b>41,985</b>	<b>10,684</b>	<b>61,616</b>	<b>13,589</b>
<b>OTHER ITEMS</b>				
Non-controlling interest - exchangeable shares (Note 7)	10,160	4,231	12,466	7,410
Loss related to equity method investment	115	784	121	837
	<b>10,275</b>	<b>5,015</b>	<b>12,587</b>	<b>8,247</b>
<b>NET EARNINGS AND COMPREHENSIVE INCOME</b>				
	<b>102,289</b>	<b>41,050</b>	<b>128,485</b>	<b>72,397</b>
Retained earnings, beginning of period	198,496	187,452	217,209	190,824
Distributions declared (Note 6)	(39,767)	(33,669)	(78,842)	(66,876)
Unit-settled distributions on vested unit based awards (Note 6)	-	-	(5,834)	(1,512)
<b>RETAINED EARNINGS, END OF PERIOD</b>	<b>\$261,018</b>	<b>\$194,833</b>	<b>\$261,018</b>	<b>\$194,833</b>
<b>NET EARNINGS PER TRUST UNIT (NOTE 9):</b>				
Basic	\$ 1.47	\$ 0.62	\$ 1.86	\$ 1.11
Diluted	\$ 1.44	\$ 0.60	\$ 1.81	\$ 1.07
<b>WEIGHTED AVERAGE TRUST UNITS OUTSTANDING (NOTE 9):</b>				
Basic	69,725,750	65,927,540	69,059,361	65,485,018
Diluted	78,116,563	75,112,732	77,750,414	74,804,398

**Consolidated Statements of Cash Flows**  
(\$000's unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
<b>OPERATING</b>				
Net earnings	\$102,289	\$41,050	\$128,485	\$72,397
Adjustments:				
Depletion, depreciation and accretion	65,151	52,560	127,637	98,224
Change in unrealized gains and losses and accruals relating to derivative contracts (Note 10)	5,499	(1,062)	4,254	816
Unit based compensation	4,349	4,024	9,250	9,416
Loss related to equity method investment	115	784	121	837
Unrealized foreign exchange loss (gain)	1,901	(18,130)	30,079	(17,904)
Non-controlling interest - exchangeable shares	10,160	4,231	12,466	7,410
Change in unrealized gains and losses and accruals included in other income or expense relating to investments	595	38	(1,597)	(600)
Future income taxes	288	1,606	(952)	(9,557)
	<u>190,347</u>	<u>85,101</u>	<u>309,743</u>	<u>161,039</u>
Asset retirement costs incurred	(1,142)	(381)	(2,291)	(1,217)
Changes in non-cash operating working capital	(5,031)	11,277	41,449	25,411
Cash flows from operating activities	<u>184,174</u>	<u>95,997</u>	<u>348,901</u>	<u>185,233</u>
<b>INVESTING</b>				
Drilling and development of petroleum and natural gas properties	(31,180)	(32,044)	(68,569)	(71,798)
Acquisition of petroleum and natural gas properties (Note 3)	(900)	(120,788)	(45,428)	(120,914)
Long-term investment	-	-	(627)	-
Changes in non-cash investing working capital	(6,443)	(5,180)	(1,726)	(8,843)
Cash flows used in investing activities	<u>(38,523)</u>	<u>(158,012)</u>	<u>(116,350)</u>	<u>(201,555)</u>
<b>FINANCING</b>				
Increase (decrease) in long-term debt	(215,849)	66,910	(168,850)	92,129
Issue of trust units for cash	816	1,388	3,740	3,122
Issue of trust units pursuant to the distribution reinvestment plan	7,794	8,950	18,453	16,684
Cash distributions	(39,714)	(33,561)	(78,367)	(66,619)
Changes in non-cash financing working capital	-	329	-	193
Cash flows from or used in financing activities	<u>(246,953)</u>	<u>44,016</u>	<u>(225,024)</u>	<u>45,509</u>
Foreign exchange gain (loss) on cash in foreign currencies	(4,871)	(3,096)	4,694	(3,055)
Net change in cash and cash equivalents	<u>(106,173)</u>	<u>(21,095)</u>	<u>12,221</u>	<u>26,132</u>
Cash and cash equivalents, beginning of period	<u>166,262</u>	<u>74,177</u>	<u>47,868</u>	<u>26,950</u>
Cash and cash equivalents, end of period	<u>\$60,089</u>	<u>\$53,082</u>	<u>\$60,089</u>	<u>\$53,082</u>
Supplementary information - cash payments				
Interest paid	\$ 3,719	\$ 4,348	\$ 9,761	\$ 9,349
Income taxes paid	<u>\$10,376</u>	<u>\$19,683</u>	<u>\$16,973</u>	<u>\$25,770</u>

**Notes to the Consolidated Financial Statements**  
**For the three and six month periods ended June 30, 2008 and 2007**  
(\$000's except unit and per unit amounts, unaudited)

**1. BASIS OF PRESENTATION**

The consolidated financial statements of Vermilion Energy Trust (the "Trust" or "Vermilion") include the accounts of the Trust and its subsidiaries and have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") on a consistent basis with the audited consolidated financial statements for the year ended December 31, 2007 except as disclosed in Note 2 below. These interim consolidated financial statements do not include all disclosures required in annual financial statements and should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2007 included in the Trust's 2007 Annual Report.

**2. 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 (see notes 14 and 15).

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

**3. INVESTMENTS AND ACQUISITIONS**

On January 31, 2008, the Trust completed an acquisition of gas producing assets and gross-overriding royalties on oil producing properties for cash consideration of \$44.1 million.

The purchase price relating to this asset purchase was allocated as follows:

Capital assets	\$46,057
Asset retirement obligation	(1,931)
<u>Total consideration</u>	<u>\$44,126</u>

During the three and six month periods ended June 30, 2008, the Trust also acquired \$0.9 million and \$1.3 million of other petroleum and natural gas properties, respectively.

**4. ASSET RETIREMENT OBLIGATION**

The asset retirement obligation was determined based on the estimated future costs and timing to reclaim the Trust's net interest in all wells and facilities. The Trust has estimated the net present value of its asset retirement obligations to be \$188.0 million as at June 30, 2008 (December 31, 2007 - \$163.4 million) based on a total undiscounted future liability after inflation adjustment of \$640.7 million (December 31, 2007 - \$579.4 million). These payments are expected to be made over the next 48 years with most arising within the next 15 to 37 years. The Trust used a credit adjusted risk free rate of 8% and inflation rates of between 1.5% and 2.0% to calculate the present value of the asset retirement obligation.

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

	June 30, 2008	December 31, 2007
Carrying amount, beginning of period	\$163,374	\$127,494
Increase in liabilities in the period	2,322	12,936
Disposition of liabilities in the period	(2,291)	(4,055)
Change in estimate	3,960	27,240
Accretion expense	7,112	10,067
Foreign exchange	13,473	(10,308)
<u>Carrying amount, end of period</u>	<u>\$187,950</u>	<u>\$163,374</u>

#### 4. ASSET RETIREMENT OBLIGATION (CONTINUED)

The Trust has set aside funds for the future payment of its estimated asset retirement obligations. The following table reconciles the Trust's reclamation fund investments:

	June 30, 2008	December 31, 2007
Cash and short-term investments, at fair value	\$11,693	\$10,838
Equity and debt securities, at fair value	45,653	47,090
	<u>\$57,346</u>	<u>\$57,928</u>

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

#### 5. LONG-TERM DEBT

As at June 30, 2008 the Trust had an unsecured, covenant-based credit facility allowing for maximum borrowings of \$675 million. The revolving period under the facility is expected to expire in June 2009 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.

#### 6. UNITHOLDERS' CAPITAL AND CONTRIBUTED SURPLUS

	Number of Units	Amount
<b>Trust Units</b>		
Unlimited number of trust units authorized to be issued		
<b>Balance as at December 31, 2006</b>	64,708,194	\$321,035
Distribution reinvestment plan	1,082,868	35,992
Issued on conversion of exchangeable shares	2,143	70
Unit rights exercised and issuance of units on vesting of trust unit award plan grants	1,477,278	7,045
Transfer from contributed surplus for unit based awards	-	14,592
Trust units issued for bonus plan	23,039	695
Unit-settled distributions on vested unit based awards	41,905	1,512
<b>Balance as at December 31, 2007</b>	<u>67,335,427</u>	<u>\$380,941</u>
Distribution reinvestment plan	521,839	18,453
Issued on conversion of exchangeable shares	179,157	5,714
Unit rights exercised and issuance of units on vesting of trust unit award plan grants	1,630,943	3,740
Transfer from contributed surplus for unit based awards	-	16,886
Trust units issued for bonus plan	18,555	597
Unit-settled distributions on vested unit based awards	150,908	5,834
<b>Balance as at June 30, 2008</b>	<u>69,836,829</u>	<u>\$432,165</u>
	<b>June 30, 2008</b>	<b>December 31, 2007</b>
<b>Contributed Surplus</b>		
Opening balance	\$29,211	\$30,513
Unit compensation expense (excluding bonus plan)	8,653	13,290
Transfer to unitholders' capital for unit based awards	(16,886)	(14,592)
<b>Ending balance</b>	<u>\$20,978</u>	<u>\$29,211</u>

Distributions declared to unitholders for the three and six month periods ended June 30, 2008 were \$39.8 million and \$78.8 million, respectively (2007 - \$33.7 million and \$66.9 million, respectively). Distributions are determined by the Board of Directors in accordance with the Trust indenture and are paid monthly.

## 7. NON-CONTROLLING INTEREST – EXCHANGEABLE SHARES

Upon conversion to a Trust, 6.0 million exchangeable shares of Vermilion Resources Ltd. (the “Company”) were issued. The exchangeable shares are mandatorily converted into trust units upon redemption by the shareholder. The Company holds the option to redeem all outstanding exchangeable shares for trust units or cash on or before January 22, 2013 and it is the intention of the Trust that trust units would be issued upon redemption of the exchangeable shares. On or before January 22, 2013, there will be no remaining non-controlling interest as all exchangeable shares must be converted to trust units by that time.

The conversion of exchangeable shares occurs based on the exchange ratio which is adjusted monthly to reflect the distributions paid on trust units. Cash distributions are not paid on exchangeable shares.

The non-controlling interest on the consolidated balance sheets consists of the book value of the exchangeable shares upon issuance plus the accumulated earnings attributable to the non-controlling interest. The net earnings attributable to the non-controlling interest on the consolidated statements 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.

	June 30, 2008	December 31, 2007
<b>Exchangeable Shares</b>		
Opening number of exchangeable shares	4,457,473	4,458,919
Exchanged for trust units	<u>(114,499)</u>	<u>(1,446)</u>
Ending balance	4,342,974	4,457,473
Ending exchange ratio	<u>1.60362</u>	<u>1.55595</u>
Trust units issuable upon conversion	<u>6,964,480</u>	<u>6,935,605</u>

The following table summarizes the changes in the non-controlling interest as presented on the consolidated balance sheets:

	June 30, 2008	December 31, 2007
Non-controlling interest, beginning of period	\$68,576	\$51,780
Reduction of book value for conversion to trust units	(1,346)	(17)
Current period net earnings attributable to non-controlling interest	<u>12,466</u>	<u>16,813</u>
Non-controlling interest, end of period	<u>\$79,696</u>	<u>\$68,576</u>

## 8. UNIT COMPENSATION PLANS

### *Unit Rights Incentive Plan*

The following table summarizes information about the Trust's Unit Rights Incentive Plan:

	Number of Unit Rights	Grant Date Weighted Average Exercise Price
Balance as at December 31, 2007	1,148,616	\$14.55
Exercised	(808,766)	\$12.93
Balance as at June 30, 2008	339,850	\$18.40

A summary of the plan as at June 30, 2008 is as follows:

Range of Exercise Price At Grant Date	Adjusted Exercise Price	Number of Rights Outstanding and Exercisable	Remaining Contractual Life of Rights (Years)
\$15.01 - \$19.56	\$5.69 - \$10.24	339,850	1.13

No compensation expense has been recorded for the three and six month periods ended June 30, 2008 (2007 - \$0.4 million and \$0.9 million, respectively) related to the Unit Rights Incentive Plan as all awards are fully vested.

### *Trust Unit Award Incentive Plan*

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

	Number of Awards
Balance as at December 31, 2007	1,102,495
Granted	494,790
Vested	(407,113)
Cancelled	(13,365)
Balance as at June 30, 2008	1,176,807

Compensation expense of \$4.3 million and \$8.6 million has been recorded for the three and six month periods ended June 30, 2008, respectively (2007 - \$3.6 million and \$7.8 million, respectively) related to the Trust Unit Award Incentive Plan.

### *Phantom Award Incentive Plan*

Compensation expense for this cash settled plan of \$0.5 million and \$1.0 million has been recorded as general and administration expense for the three and six month periods ended June 30, 2008, respectively (2007 - \$0.7 million and \$0.9 million, respectively).



## 9. PER UNIT AMOUNTS

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

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Net earnings	\$102,289	\$41,050	\$128,485	\$72,397
Non-controlling interest – exchangeable shares	10,160	4,231	12,466	7,410
<b>Net earnings for diluted net earnings per trust unit calculation</b>	<b>\$112,449</b>	<b>\$45,281</b>	<b>\$140,951</b>	<b>\$79,807</b>
<b>Basic weighted average trust units outstanding</b>	<b>69,725,750</b>	<b>65,927,540</b>	<b>69,059,361</b>	<b>65,485,018</b>
Dilutive impact of trust units issuable on conversion of exchangeable shares	6,965,800	6,745,885	6,966,874	6,746,257
Dilutive impact of unit rights incentive and trust unit award plans	1,425,013	2,439,307	1,724,179	2,573,123
<b>Diluted weighted average trust units outstanding</b>	<b>78,116,563</b>	<b>75,112,732</b>	<b>77,750,414</b>	<b>74,804,398</b>

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

## 10. DERIVATIVE INSTRUMENTS

### *Risk Management Activities*

The nature of the Trust's operations result 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 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.

<b>Risk Management: Oil</b>	<b>Funded Cost</b>	<b>bbls/d</b>	<b>US\$/bbl</b>
Collar – WTI			
Q3 2008	US\$0.28/bbl	250	\$70.00 - \$90.00
Q4 2008	US\$0.50/bbl	250	\$69.00 - \$90.00
Collar - BRENT			
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
2009	US\$1.00/bbl	500	\$100.50 - \$200.00
Call Spread - BRENT			
2009 – 2011	US\$5.73/bbl	700	\$65.00 - \$85.00
<b>Risk Management: Natural Gas</b>	<b>Funded Cost</b>	<b>GJ/d</b>	<b>C\$/GJ</b>
Put – AECO			
July - October 2008	\$0.35/GJ	2,500	\$9.30
July - October 2008	\$0.32/GJ	2,500	\$9.55

## 10. DERIVATIVE INSTRUMENTS (CONTINUED)

The following table reconciles the change in the Trust's fair value of derivative contracts:

	June 30, 2008	December 31, 2007
Fair value of contracts, beginning of period	\$ 2,102	\$6,280
Opening unrealized loss (gain) on contracts settled during the period	4,598	(1,624)
Realized (loss) on contracts settled during the period	(8,148)	(2,835)
Unrealized (loss) during the period on contracts outstanding at the end of the period	(8,852)	(2,554)
Net payment to counterparties under contract settlements during the period	8,148	2,835
<u>Fair value of contracts, end of period</u>	<u>\$(2,152)</u>	<u>\$2,102</u>
Comprised of:		
Current derivative asset	\$ -	\$ 37
Current derivative liability	(14,886)	(7,450)
Non-current derivative asset	12,734	9,515
<u>Fair value of contracts, end of period</u>	<u>\$(2,152)</u>	<u>\$2,102</u>

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

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Realized (gain) loss on contracts settled during the period	\$ 5,950	\$ 304	\$ 8,148	\$ (511)
Opening unrealized gain (loss) on contracts settled during the period	(2,245)	701	(4,598)	1,300
Unrealized loss (gain) during the period on contracts outstanding at the end of the period	7,744	(1,763)	8,852	(484)
<u>Loss on derivative instruments for the period</u>	<u>\$11,449</u>	<u>\$ (758)</u>	<u>\$12,402</u>	<u>\$ 305</u>

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

## 11. SEGMENTED INFORMATION

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Petroleum and natural gas revenue				
Canada	\$ 96,473	\$ 59,011	\$168,827	\$114,983
France	110,784	63,111	181,746	108,791
Netherlands	29,063	15,412	56,326	36,747
Australia	105,085	27,328	163,965	53,149
	<b>\$341,405</b>	<b>\$164,862</b>	<b>\$570,864</b>	<b>\$313,670</b>
Net earnings				
Canada	\$ 533	\$ 7,781	\$ 33,430	\$ 10,396
France	51,225	23,204	41,821	36,649
Netherlands	9,589	4,581	10,425	10,096
Australia	40,942	5,484	42,809	15,256
	<b>\$102,289</b>	<b>\$ 41,050</b>	<b>\$128,485</b>	<b>\$ 72,397</b>
Capital expenditures				
Canada	\$ 9,058	\$ 12,611	\$ 69,909	\$ 34,280
France	15,171	17,663	28,203	28,773
Netherlands	3,418	3,359	9,691	4,381
Australia	4,433	119,199	6,194	125,278
	<b>\$ 32,080</b>	<b>\$152,832</b>	<b>\$113,997</b>	<b>\$192,712</b>
			June 30, 2008	December 31, 2007
Total assets				
Canada			\$ 728,236	\$ 662,904
France			628,063	604,090
Netherlands			138,242	150,533
Australia			245,102	250,596
			<b>\$1,739,643</b>	<b>\$1,668,123</b>

## 12. LONG-TERM INVESTMENTS

The following table reconciles the Trust's total long-term investments as presented on the consolidated balance sheets:

	June 30, 2008	December 31, 2007
Portfolio investments, at fair value	\$ 8,274	\$ 5,032
Investment in Verenex Energy Inc., equity method (fair value - \$152.7 million, 2007 - \$158.8 million)	58,601	58,096
<b>Total long-term investments</b>	<b>\$66,875</b>	<b>\$63,128</b>

### 13. COMPONENTS OF CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows:

	June 30, 2008	December 31, 2007
Monies on deposit with banks	\$60,089	\$44,588
Guaranteed short-term investments	-	3,280
<b>Total cash and cash equivalents</b>	<b>\$60,089</b>	<b>\$47,868</b>

### 14. CAPITAL DISCLOSURES

The Trust's objectives in managing capital are to safeguard the assets of the Trust, to ensure that sufficient economic resources are available to execute its business plans and to provide consistent and stable distributions for unitholders.

In the management of capital, the Trust monitors net debt, a non-GAAP measure, which is defined as long-term debt as shown on the consolidated balance sheets plus working capital. Net debt is analyzed in relation to annualized fund flows from operations (a non-GAAP measure, defined as cash flows from operating activities before changes in non-cash operating working capital and asset retirement costs incurred).

The following table calculates the Trust's ratio of net debt to annualized fund flows from operations for the three and six month periods ended June 30, 2008 and for the three month period ended December 31, 2007:

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008	Three Months Ended December 31, 2007
Long-term debt	\$286,672	\$286,672	\$452,490
Current liabilities	245,628	245,628	150,620
Current assets	(247,266)	(247,266)	(186,252)
Net debt <sup>(1)</sup>	\$285,034	\$285,034	\$416,858
Cash flows from operating activities	\$184,174	\$348,901	\$ 51,737
Changes in non-cash operating working capital	5,031	(41,449)	72,760
Asset retirement costs incurred	1,142	2,291	1,618
Fund flows from operations	\$190,347	\$309,743	\$126,115
Annualized fund flows from operations <sup>(2)</sup>	\$761,388	\$619,486	\$504,460
Ratio of net debt to annualized fund flows from operations <sup>(1) ÷ (2)</sup>	0.4	0.5	0.8

For the periods presented here, the ratio of net debt to annualized fund flows from operations was between 0.4 and 0.8.

In relation to its long-term debt, the Trust is subject to a debt to EBITDA ratio test (where debt is defined as long-term debt as presented on the consolidated balance sheet and EBITDA is defined as earnings before interest, taxes, depreciation, amortization and other certain non-cash items). During the periods covered by these financial statements, the Trust continued to comply with this externally imposed capital requirement.

## 15. FINANCIAL INSTRUMENTS

The following table summarizes information relating to Vermilion's financial instruments as at June 30, 2008 and December 31, 2007:

### Classification of Financial Instruments

Class of Financial Instruments	Location on Consolidated Balance Sheet	Accounting Designation	Related Income or Expense Account on Statement of Earnings	Carrying Amount and Fair Value of Asset (Liability) as at:	
				June 30, 2008	December 31, 2007
Cash	Cash and cash equivalents	HFT-B	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	\$ 60,089	\$ 47,868
Receivables	Accounts receivable	LAR	Gains and losses on foreign exchange are included in foreign exchange loss (gain). Impairments are recognized as general and administration expense	\$ 169,292	\$ 119,645
Derivative assets	Derivative instruments	HFT-B	Loss (gain) on derivative instruments	\$ 12,734	\$ 9,552
Derivative liabilities	Derivative instruments	HFT-B	Loss (gain) on derivative instruments	\$ (14,886)	\$ (7,450)
Reclamation fund investments	Reclamation fund	HFT-A	Other income or expense	\$ 57,346	\$ 57,928
Portfolio investments	Long-term investments <sup>(1)</sup>	HFT-A	Other income or expense	\$ 8,274	\$ 5,032
Payables	Accounts payable and accrued liabilities. Distributions payable to unitholders.	OTH	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	\$ (183,629)	\$ (141,652)
Long-term debt	Long-term debt	OTH	Interest	\$ (286,672)	\$ (452,490)

<sup>(1)</sup> See note 12 for a reconciliation of the long-term investments account

Accounting designations used in the above table:

HFT-A – Designated by the Trust as “Held for trading” upon initial recognition. Financial assets and liabilities designated as “Held for trading” are carried at fair value on the consolidated balance sheets with gains and losses associated with fair value adjustments recognized in net earnings.

HFT-B – Classified as “Held for trading” in accordance with Section 3855 of the CICA Handbook. As with HFT-A instruments these financial assets and liabilities are carried at fair value on the consolidated balance sheets with associated gains and losses reflected in net earnings.

LAR – “Loans and receivables” are initially recognized at fair value and subsequently are measured at amortized cost. Impairments and foreign exchange gains and losses are recognized in net earnings.

OTH – “Other financial liabilities” are initially recognized at fair value and subsequently are measured at amortized cost. Interest is recognized in net earnings using the effective interest method. Foreign exchange gains and losses are recognized in net earnings.

## 15. FINANCIAL INSTRUMENTS (CONTINUED)

### Determination of Fair Values

Fair values for derivative assets and derivative liabilities are determined using option pricing models that are based on assumptions which are supported by prices from observable market transactions. Fair values for portfolio investments and reclamation fund investments are determined by reference to published price quotations in active markets. The carrying value of cash equivalents, receivables and payables approximate their fair value due to their short maturities. The carrying value of long-term debt approximates its fair value due to the use of short-term borrowing instruments at market rates of interest.

### Nature and Extent of Risks Arising From Financial Instruments

Vermilion is exposed to the following types of risks in relation to its financial instruments:

#### Credit risk:

Vermilion extends credit to customers and the Trust may, from time-to-time, be due amounts from counterparties in relation to derivative instruments. Accordingly, there is a risk of financial loss in the event that a counterparty fails to discharge its obligation. For transactions that are financially significant, Vermilion reviews third-party credit ratings and may require additional forms of security.

#### Currency risk:

Vermilion conducts business in currencies other than Canadian dollars and accordingly is subject to currency risk associated with changes in foreign exchange rates in relation to cash, receivables, payables, derivative assets and liabilities and reclamation fund investments. The effect of exchange rates on financial instruments of a current nature is somewhat mitigated as a result of the natural hedging effect of Vermilion's foreign currency working capital position. Vermilion monitors its exposure to currency risk and reviews whether the use of derivative financial instruments is appropriate to manage potential fluctuations in foreign exchange rates. At present, the Trust does not have any derivative instruments in place with respect to currency risk.

#### Commodity price risk:

Vermilion uses financial derivatives as part of its risk management program associated with the effects of changes in commodity prices on future cash flows. Changes in the underlying commodity prices impact the fair value and future cash flows related to these derivatives.

#### Equity price risk:

The Trust holds investments in equity securities in its reclamation fund. In addition, at June 30, 2008 the Trust held portfolio investments in equity securities with a fair value of \$8.3 million. The fair value of these instruments is exposed to changes in the prices of the underlying equities.

#### Interest rate risk:

Vermilion's debt is primarily comprised of short-term bankers acceptances that bear interest at market rates. Accordingly, Vermilion's exposure to interest rate risk in relation to its long-term debt at the balance sheet date is not material. The fair value of the bonds and debt securities that Vermilion holds in its reclamation fund is subject to interest rate risk.

#### Liquidity risk:

Liquidity risk is the risk that Vermilion will encounter difficulty in meeting obligations associated with its financial liabilities. The Trust does not consider this to be a significant risk as its financial position and available committed borrowing facility provide significant financial flexibility and allow Vermilion to meet its obligations as they come due.

The nature of these risks and the Trust's strategy for managing these risks has not changed significantly from the prior period.

## 15. FINANCIAL INSTRUMENTS (CONTINUED)

### Summarized Quantitative Data Associated with the Above Risks

#### Credit risk:

As at June 30, 2008 Vermilion's maximum exposure to credit risk was \$182.0 million which is the aggregate value of receivables and derivative assets at the balance sheet date. Vermilion's receivables are due from counterparties that have investment grade third party credit ratings or, in the absence of the availability of such ratings; Vermilion has satisfactorily reviewed the counterparty for creditworthiness as appropriate.

As at the balance sheet date the amount of financial assets that were past due or impaired was not material for disclosure.

#### Liquidity risk:

The following table summarizes Vermilion's financial liabilities and their contractual maturities:

Due in (from balance sheet date)	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and not later than five years
Non-derivative financial liabilities	\$122,156	\$56,078	\$5,395	\$286,672
Derivative financial liabilities	\$ 2,460	\$ 5,260	\$6,708	\$ 458

Minimal liquidity risk exists with regards to the Trust's financial liabilities given the Trust's financial position and committed borrowing facility.

#### Market risk:

As previously noted, the Trust is exposed to currency risk related to changes in foreign currency denominated financial instruments, commodity price risk related to outstanding derivative positions, interest rate risk related to its long-term debt and investments in debt securities and equity price risk related to investments in equity securities. The following table summarizes what the impact on net earnings before tax would be for the six month period ended June 30, 2008 given changes in the relevant risk variables that the Trust considers were reasonably possible at June 30, 2008. The impact on net earnings before tax associated with changes in these risk variables for liabilities that are not considered financial instruments is excluded from this analysis. This analysis does not attempt to reflect any interdependencies between the relevant risk variables.

Risk	Description of change in risk variable	Effect on net earnings before tax increase (decrease)
Currency risk – Euro to Canadian	<u>Increase</u> in strength of the Canadian dollar against the Euro by 10% over the relevant closing rates on June 30, 2008.	\$(9,226)
	<u>Decrease</u> in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on June 30, 2008.	\$ 4,613
Currency risk – US\$ to Canadian	<u>Increase</u> in strength of the Canadian dollar against the US\$ by 10% over the relevant closing rates on June 30, 2008.	\$(5,328)
	<u>Decrease</u> in strength of the Canadian dollar against the US\$ by 5% over the relevant closing rates on June 30, 2008.	\$ 2,664
Currency risk – AUD\$ to Canadian	<u>Increase</u> in strength of the Canadian dollar against the AUD\$ by 10% over the relevant closing rates on June 30, 2008.	\$ 1,416
	<u>Decrease</u> in strength of the Canadian dollar against the AUD\$ by 5% over the relevant closing rates on June 30, 2008.	\$ (708)
Commodity price risk	<u>Increase</u> in relevant oil reference price at June 30, 2008 by US\$5.00/bbl within option pricing models used to determine the fair value of derivative positions.	\$(1,043)
	<u>Decrease</u> in relevant oil reference price at June 30, 2008 by US\$5.00/bbl within option pricing models used to determine the fair value of derivative positions.	\$ 1,043

Reasonably possible changes in the relevant variables associated with interest rate risk and equity price risk would not have had a material impact on net earnings for the period ended June 30, 2008.

## TRUST INFORMATION

### DIRECTORS

Larry J. Macdonald <sup>1, 2, 3, 4, 5</sup>  
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Joseph F. Killi <sup>2, 3</sup>  
Chairman,  
Parkbridge Lifestyle Communities Inc.  
Vice Chairman, Realex Properties Corp.  
Calgary, Alberta

William F. Madison <sup>2, 4, 5</sup>  
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

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Executive Vice President Business Development

Curtis W. Hicks, C.A.  
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Partner, Macleod Dixon LLP  
Corporate Secretary

#### FRANCE

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Regional General Manager, European Operations  
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Canada

### STOCK EXCHANGE LISTING

The Toronto Stock Exchange  
Symbol: VET.UN

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you can see our  
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