



## 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](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.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is Management's Discussion and Analysis (MD&A) dated May 6, 2009 of Vermilion's operating and financial results for the three month period ended March 31, 2009 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, 2009 and the Trust's audited consolidated financial statements for the years ended December 31, 2008 and 2007, together with accompanying notes, as contained in the Trust's 2008 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	
	Mar 31, 2009	Mar 31, 2008
Cash flows from operating activities	\$54,684	\$164,727
Changes in non-cash operating working capital	11,075	(46,480)
Asset retirement costs incurred	2,651	1,149
<b>Fund flows from operations</b>	<b>\$68,410</b>	<b>\$119,396</b>

"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. Acquisitions, including acquired working capital deficiency is reconciled below:

(\$000's)	Three Months Ended	
	Mar 31, 2009	Mar 31, 2008
Acquisition of petroleum and natural gas properties from consolidated statements of cash flows	\$5,046	\$44,528
Corporate acquisition, net of cash acquired from consolidated statements of cash flows	-	-
Working capital deficiencies acquired from investments and acquisitions (see financial statement notes for relevant period)	-	-
<b>Acquisitions, including acquired working capital deficiency</b>	<b>\$5,046</b>	<b>\$44,528</b>

“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. Net debt is reconciled below to long-term debt which is the most directly comparable GAAP measure:

(\$000's)	As At	As At	As At
	Mar 31, 2009	Dec 31, 2008	Mar 31, 2008
Long-term debt	\$168,255	\$197,651	\$500,255
Current liabilities	205,188	250,275	197,001
Current assets	(140,832)	(240,173)	(299,777)
Net debt	\$232,611	\$207,753	\$397,479

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

“Net distributions” is calculated as distributions declared for a given period less proceeds received by the Trust pursuant to the Distribution Reinvestment Plan (“DRIP”). 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. Net distributions is reconciled below to distributions declared, the most directly comparable GAAP measure:

(\$000's)	Three Months Ended	
	Mar 31, 2009	Mar 31, 2008
Distributions declared	\$40,173	\$39,075
Issue of trust units pursuant to the distribution reinvestment plan	-	(10,659)
Net distributions	\$40,173	\$28,416

“Total net distributions, capital expenditures, reclamation fund contributions and asset retirement costs incurred” is calculated as the addition of net 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. This measure is reconciled to the relevant GAAP measures below:

(\$000's)	Three Months Ended	
	Mar 31, 2009	Mar 31, 2008
Distributions declared	\$40,173	\$39,075
Issue of trust units pursuant to the distribution reinvestment plan	-	(10,659)
Drilling and development of petroleum and natural gas properties	39,918	37,389
Contributions to reclamation fund	-	-
Asset retirement costs incurred	2,651	1,149
	\$82,742	\$66,954

“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. These measures are reconciled to the relevant GAAP measures below:

	As At Mar 31, 2009	As At Mar 31, 2008
Trust units outstanding	70,988,409	69,558,527
Trust units issuable pursuant to exchangeable shares outstanding	6,945,161	6,867,215
Adjusted basic trust units outstanding	77,933,570	76,425,742
Potential trust units issuable pursuant to unit compensation plans	1,644,208	2,252,026
Diluted trust units outstanding	79,577,778	78,677,768

	As At Mar 31, 2009	As At Mar 31, 2008
Basic weighted average trust units outstanding	70,484,995	68,392,973
Trust units issuable pursuant to exchangeable shares outstanding	6,945,161	6,869,053
Adjusted basic weighted average trust units outstanding	77,430,156	75,262,026

## 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 five wells (3.15 net) during the first quarter of 2009, resulting in one gas well (0.4 net), one abandoned well (0.3 net) and three standing wells (2.45 net) awaiting tie-in. Only one (0.45 net) coalbed methane well was drilled in the first quarter.

### France

In France, Vermilion drilled one well (1.0 net) at Champotran in the Paris Basin in the first quarter of 2009. Vermilion continues to workover, recomplete and reactivate wells providing a significant offset to natural declines. A number of drill-ready prospects will be in place when commodity prices improve.

### Netherlands

Subsidence modeling and simulation work for the Harlingen field continued in the first quarter of 2009, and the 1,000 boe/d of affected production will remain shut-in until Vermilion and the regulatory authorities can develop a more predictive model for this field.

## Australia

Vermilion had a relatively calm period of cyclone activity experiencing only a short period of weather related downtime. Ongoing activities will focus on maintaining production at optimum levels and planning for the next stage of drilling activity.

## **PRODUCTION**

Average production in Canada during the first quarter of 2009 was 3,744 bbls/d of oil and NGLs and 49.6 mmcf/d of natural gas (12,008 boe/d) compared to 4,041 bbls/d of oil and NGLs and 50.5 mmcf/d of natural gas (12,448 boe/d) in the fourth quarter of 2008. First quarter 2009 production was impacted by extreme cold weather in January and by natural declines.

Production in France averaged 8,395 boe/d in the first quarter of 2009, slightly lower than the 8,630 boe/d produced in the fourth quarter of 2008. A severe windstorm hit the Atlantic coast in late January that damaged the electrical power infrastructure of the entire region. Downtime related to this event resulted in a production shortfall of approximately 225 boe/d in the first quarter.

Netherlands volumes averaged 3,936 boe/d in the first quarter of 2009, a slight change from the 4,043 boe/d recorded in the fourth quarter of 2008. Production is expected to decline gradually over the course of the year.

Australia production averaged 8,612 boe/d in the first quarter of 2009, compared to 7,117 boe/d in the fourth quarter of 2008 as the two recently completed wells provided a strong boost in volumes. Vermilion experienced only a short amount of weather related downtime as the Wandoo B platform was one of the few in the area to manage through the cyclone season without the need to evacuate. Production levels should taper off through the remainder of 2009.

	Three Months Ended March 31, 2009				Three Months Ended March 31, 2008			
	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	%	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	%
Canada	3,744	49.58	12,008	37	4,165	51.39	12,730	38
France	8,223	1.04	8,395	25	8,605	1.17	8,800	27
Netherlands	24	23.47	3,936	12	19	30.46	5,096	15
Australia	8,612	-	8,612	26	6,446	-	6,446	20
Total Production	20,603	74.09	32,951	100	19,235	83.02	33,072	100

## **FINANCIAL REVIEW**

During the three month period ended March 31, 2009, the Trust generated fund flows from operations of \$68.4 million. For the same period in 2008 the Trust generated fund flows from operations of \$119.4 million. The year over year decrease in fund flows from operations of \$51.0 million is largely the result of lower average commodity prices in the first quarter of 2009 versus 2008. The GAAP measure, cash flows from operating activities also decreased year over year to \$54.7 million for the three months ended March 31, 2009 versus \$164.7 million for the same period in 2008.

During the first quarter of 2009, the price of WTI crude oil averaged US \$43.08 per barrel, less than half of the US \$97.90 average price per barrel for the first quarter of 2008. During the same period, the AECO price for gas averaged CDN \$4.92, a decline of 38% from the CDN \$7.90 average during the corresponding period in 2008.

Despite the year over year decrease in fund flows from operations, Vermilion maintained a strong balance sheet and continues to be well positioned to weather the current downturn in commodity prices. At March 31, 2009 the Trust's net debt was \$232.6 million which represents an increase of 12% from the net debt of \$207.8 million at December 31, 2008. The Trust's long-term debt has decreased to \$168.3 million at March 31, 2009 from \$197.7 million at December 31, 2008. At March 31, 2009 Vermilion's net debt represented less than 90% of its first quarter annualized fund flows from operations.

For the three months ended March 31, 2009 total net distributions, capital expenditures, reclamation fund contributions and asset retirement costs incurred as a percentage of fund flows from operations was 121% versus 56% for the corresponding period in the prior year. The year over year increase in this ratio relates to the lower fund flows from operations achieved in the first quarter of 2009 versus 2008 which is associated with lower commodity prices combined with the timing impact of the Trust's non-acquisition related capital spending. During the first quarter of 2009, approximately one third of the current capital budget for 2009 was spent.

## CAPITAL EXPENDITURES

Total capital spending, including acquisitions for the three month period ended March 31, 2009 was \$45.0 million (three month period ended March 31, 2008, \$81.9 million). The year over year decrease primarily relates to the acquisition of producing properties in the Drayton Valley area that was completed in the first quarter of 2008 for \$44.1 million.

Non-acquisitions related capital spending has remained relatively consistent year over year.

(\$000's)	Three Months Ended	
	Mar 31, 2009	Mar 31, 2008
Land	\$1,461	\$ 454
Seismic	474	3,013
Drilling and completion	15,899	14,520
Production equipment and facilities	9,687	12,292
Recompletions	4,931	2,824
Other	7,466	4,286
	<b>39,918</b>	<b>37,389</b>
Acquisitions (excluding acquired working capital deficiency)	5,046	44,528
<b>Total</b>	<b>\$44,964</b>	<b>\$81,917</b>

## REVENUE

Revenue for the three month period ended March 31, 2009 was \$146.2 million (three month period ended March 31, 2008, \$229.5 million).

Vermilion's combined crude oil and NGL price was \$51.76 per boe in the first quarter of 2009, a decrease of 45% over the \$93.75 per boe reported in the first quarter of 2008. The natural gas price realized was \$7.54 per mcf in the first quarter of 2009 compared to \$8.65 per mcf in the first quarter of 2008, a 13% decrease year over year. Vermilion's lower revenue year over year was driven by lower commodity prices in the first quarter of 2009 versus 2008.

The effect of lower Canadian natural gas reference prices on the Trust was somewhat mitigated by the positive impact of the natural gas pricing formula used in the Netherlands which resulted in a higher price received in that country year over year.

(\$000's except per boe and per mcf)	Three Months Ended	
	Mar 31, 2009	Mar 31, 2008
Crude oil & NGLs	\$ 95,985	\$164,102
Per boe	\$51.76	\$93.75
Natural gas	50,251	65,357
Per mcf	\$7.54	\$8.65
Petroleum and natural gas revenue	\$146,236	\$229,459
Per boe	\$49.31	\$76.24

The following table summarizes Vermilion's ending inventory positions for France and Australia for the most recent four quarters:

	As at Jun 30, 2008	As at Sep 30, 2008	As at Dec 31, 2008	As at Mar 31, 2009
France (bbls)	60,004	227,702	62,323	214,384
France (\$000's)	\$2,942	\$6,379	\$3,421	\$7,097
Australia (bbls)	16,961	162,701	317,877	334,838
Australia (\$000's)	\$450	\$3,711	\$8,746	\$9,402

## DERIVATIVE INSTRUMENTS

Vermilion manages a component of its risk exposure through prudent commodity and currency economic hedging strategies. The extent of Vermilion's hedging activities is driven, in part, by the state of the Trust's balance sheet. With low net debt levels and a strong balance sheet, the Trust's recent hedging activities have been minimal. Vermilion had the following financial derivatives in place at March 31, 2009:

<b>Risk Management: Oil</b>	<b>Funded Cost</b>	<b>bbls/d</b>	<b>US\$/bbl</b>
Collar - BRENT			
2009	US\$1.00/bbl	260	\$100.50 - \$200.00
Call Spread - BRENT			
2009 – 2011	US\$5.73/bbl	700	\$ 65.00 - \$ 85.00
2010	US\$4.94/bbl	1,100	\$ 65.00 - \$ 85.00
2011	US\$6.08/bbl	960	\$ 65.00 - \$ 85.00

The impact of Vermilion's economic hedging program increased the fund flows netback by \$0.75 per boe for the period ended March 31, 2009 as the price of oil was lower than the floor on the Trust's collar for the period. This compares to a hedging cost of \$0.73 per boe in the first quarter of 2008.

## ROYALTIES

Consolidated royalties for the three month period ended March 31, 2009 were \$7.32 per boe compared to \$12.18 per boe in the first quarter of 2008. As a percent of revenue for the three month period ended March 31, 2009, royalties were 15% as compared to 16% in the first quarter of 2008.

In Australia, royalties, as a percentage of revenue for the first quarter of 2009, were 26% as compared to 30% for the first quarter of 2008. The year over year decrease is attributable to the impact of lower commodity pricing in the royalty formula.

In Canada, royalties as a percent of revenue for the three month period ended March 31, 2009 decreased to 17% versus 20% for the corresponding period in the prior year as a result of the impact of lower commodity prices in the first quarter of 2009 versus the same period in 2008.

In France, a portion of the royalties levied is based on units of production and therefore is not subject to changes in commodity prices. Accordingly, as commodity prices were lower in the first quarter of 2009 versus 2008 royalties, as a percent of revenue, increased to 10% for the three month period ended March 31, 2009 as compared to 6% for the same period in the prior year.

Production in the Netherland is not subject to royalties.

(\$000's except per boe and per mcf)	Three Months Ended	
	Mar 31, 2009	Mar 31, 2008
Crude oil & NGLs	\$18,234	\$28,580
Per boe	\$9.83	\$16.33
Natural gas	3,466	8,083
Per mcf	\$0.52	\$1.07
Royalties	\$21,700	\$36,663
Per boe	\$7.32	\$12.18

## OPERATING COSTS

Consolidated operating costs per boe for the three month period ended March 31, 2009 was \$11.52 (three month period ended March 31, 2008, \$11.08). Canadian operating costs have remained at a relatively consistent level on a per boe basis for the first quarter of 2009 at \$10.38 per boe as compared to the same period in the prior year at \$10.91 per boe.

Operating costs in France increased in the first quarter of 2009 to \$12.81 per boe compared to \$9.94 per boe in the first quarter of 2008 and decreased from \$17.69 per boe in the fourth quarter of 2008. This decrease from the fourth quarter of 2008 is attributable to significant well intervention work that was performed at the end of 2008 combined with lower operational activity in the first quarter of 2009. As noted in the Trust's 2008 Annual Report, Vermilion expects its full year France operating costs in 2009 to be approximately \$13.00 per boe however the timing of well intervention work will likely cause the results of individual quarters to differ.

Australian operating costs have decreased to \$10.30 per boe for the first quarter of 2009 compared to \$12.90 per boe for the first quarter of 2008 as a result of increased production levels in the first quarter of 2009.

In the Netherlands, operating costs have increased to \$14.94 per boe for the quarter ended March 31, 2009 as compared to \$11.19 per boe for the same period in the prior year due to lower production resulting from the temporary shut-in of production at Harlingen in mid-July 2008 as a result of subsidence concerns.

(\$000's except per boe and per mcf)	Three Months Ended	
	Mar 31, 2009	Mar 31, 2008
Crude oil & NGLs	\$21,320	\$19,682
Per boe	\$11.50	\$11.24
Natural gas	12,847	13,673
Per mcf	\$1.93	\$1.81
Operating	\$34,167	\$33,355
Per boe	\$11.52	\$11.08

## 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 continue to be higher than historic levels as a result of the oil spill at the Ambès Terminal that occurred in January 2007. Transportation costs in France decreased year over year as in early March 2008, Vermilion resumed transporting crude to the Ambès terminal via pipeline and all trucking operations ceased. Full resumption of terminal operations is expected to occur during the second half of 2009.

(\$000's except per boe)	Three Months Ended	
	Mar 31, 2009	Mar 31, 2008
Transportation	\$4,351	\$6,451
Per boe	\$1.47	\$ 2.14

## GENERAL AND ADMINISTRATION EXPENSES

General and administration expense for the three month period ended March 31, 2009 was \$2.29 per boe (three month period ended March 31, 2008, \$1.64 per boe). The increase per boe from 2008 is associated with a decrease in third party overhead recoveries and lower levels of project specific costs charged to capital assets.

(\$000's except per boe)	Three Months Ended	
	Mar 31, 2009	Mar 31, 2008
General and administration	\$6,786	\$4,933
Per boe	\$2.29	\$ 1.64



## UNIT BASED COMPENSATION EXPENSE

Non-cash unit based compensation expense for the three month period ended March 31, 2009 was \$4.4 million (three month period ended March 31, 2008, \$4.9 million). This expense relates to the value attributable to long-term incentives granted to officers, directors and employees under the Trust Unit Award Incentive Plan and the Trust's bonus plan.

Total unit based compensation expense has remained relatively consistent on a year over year basis.

(\$000's except per boe)	Three Months Ended	
	Mar 31, 2009	Mar 31, 2008
Unit based compensation	\$4,364	\$4,901
Per boe	\$1.47	\$1.63

## INTEREST EXPENSE

Interest expense for the three month period ended March 31, 2009 was \$1.8 million (three month period ended March 31, 2008 \$6.1 million). The decrease in interest expense for the first quarter of 2009 versus 2008 is a result of significantly lower debt levels.

(\$000's except per boe)	Three Months Ended	
	Mar 31, 2009	Mar 31, 2008
Interest	\$1,779	\$6,140
Per boe	\$0.60	\$ 2.04

## DEPLETION, DEPRECIATION AND ACCRETION EXPENSES

Depletion, depreciation and accretion expenses per boe for the three month period ended March 31, 2009 were \$21.22 (three month period ended March 31, 2008, \$20.76). Depletion, depreciation and accretion rates for the first quarter of 2009 have increased marginally from the rates per boe for the same periods in 2008 due primarily to higher finding, development and acquisition costs incurred by the Trust.

(\$000's except per boe)	Three Months Ended	
	Mar 31, 2009	Mar 31, 2008
Depletion, depreciation and accretion	\$62,918	\$62,486
Per boe	\$21.22	\$ 20.76

## TAXES

Vermilion is subject to current taxes in France, the Netherlands and Australia. Current taxes for the three months ended March 31, 2009 decreased to \$9.3 million compared to \$20.9 million in the prior year. This decrease is attributable to the significant decline in year over year revenues associated with lower commodity prices in the first quarter of 2009 versus the first quarter of 2008. Current taxes for the first quarter of 2009 were higher than the expense recorded in the fourth quarter of 2008 as a result of certain deductions taken in France, the Netherlands and Australia in the fourth quarter of 2008.

On June 22, 2007 Federal legislation to tax certain types of income in publicly traded income and royalty trusts ("SIFT Rules") received royal assent. The main purpose of the SIFT Rules was to introduce a tax structure for trusts similar to that for corporations and the rules are expected to take effect at the beginning of 2011. The SIFT Rules also introduced normal growth guidelines that limit the amount of equity that can be issued by trusts until 2011. Currently, Vermilion does not anticipate the normal growth guidelines will impede its ability to execute its business strategy.

On June 18, 2008 Federal legislation was enacted to replace the 13% provincial tax component for the tax applicable to SIFT trusts with the "provincial SIFT tax rate". As substantially all of Vermilion's Canadian operations are in Alberta, we expect the provincial SIFT tax rate to be 10%. The related income tax regulations for calculating the provincial SIFT tax rate were enacted on March 12, 2009.

On November 28, 2008 the Minister of Finance introduced legislation to permit trusts to convert into corporations without any undue tax consequences to either the trust or its unitholders. The legislation was enacted on March 12, 2009. Vermilion has evaluated the impact of the SIFT Rules on the current Trust structure in addition to analyzing other alternative structures to determine the impact to its business model and unitholders. It is management's current intention that Vermilion will convert to a corporation by 2013. The timing of the intended conversion to a corporation will be influenced by a number of factors including strategic business opportunities. Management will continue to monitor any future changes to tax legislation and determine the impact to the trust structure accordingly.

(\$000's except per boe)	Three Months Ended	
	Mar 31, 2009	Mar 31, 2008
Current taxes	\$9,318	\$20,871
Per boe	\$3.14	\$ 6.94

## FOREIGN EXCHANGE

For the quarter ended March 31, 2009, a combined realized and unrealized foreign exchange gain of \$4.5 million was recorded compared to a loss of \$27.6 million in 2008. The combined gain through March 31, 2009 is comprised of a realized loss of \$1.9 million associated with cash repatriations and an unrealized, non-cash gain of \$6.4 million. The year to date unrealized gain is largely related to the translation to Canadian dollars of foreign currency denominated future income taxes and asset retirement obligations. Since December 31, 2008, the Canadian dollar has strengthened against the Euro resulting in this unrealized gain.

(\$000's except per boe)	Three Months Ended	
	Mar 31, 2009	Mar 31, 2008
Foreign exchange (gain) loss	\$(4,495)	\$27,630
Per boe	\$(1.52)	\$ 9.18

## EARNINGS

Net earnings for the three month period ended March 31, 2009 were \$19.9 million or \$0.28 per unit (three month period ended March 31, 2008, \$26.2 million or \$0.38 per unit). The decrease in earnings for 2009 versus 2008 is largely associated with lower average commodity price levels in 2009 as compared to the prior year.

## LIQUIDITY AND CAPITAL RESOURCES

Vermilion's net debt as at March 31, 2009 was \$232.6 million compared to \$207.8 million as at December 31, 2008.

As at March 31, 2009, 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.

Vermilion has recently negotiated a renewal of its \$675 million credit facility, subject to entering into a revised credit agreement, the terms of which have been substantially agreed to. The revised facility will consist of a \$575 million revolving facility with the same extension and term-out provisions as exist in the current facility. In addition, the Trust will have a \$100 million facility available to finance acquisitions, subject to certain conditions including unanimous approval of all banks in the syndicate. The revised credit facility will be guaranteed by certain subsidiaries and secured by floating charges over certain assets and share pledges over certain subsidiaries.

On February 24, 2009 Verenex entered into an agreement under which a company agreed to acquire all of Verenex's outstanding common shares for \$10.00 per share. Pursuant to this arrangement, Vermilion entered into a lock-up agreement with the acquirer whereby the Trust would tender its common shares in Verenex under the offer. Subsequent to these events, the Libyan National Oil Corporation announced it would exercise a preemptive right to acquire Verenex; however no formal decision from the Libyan National Oil Corporation has been communicated to Verenex to date.

On May 14, 2008, Vermilion suspended the distribution reinvestment plan (“DRIP”) and the suspension was effective June 16, 2008. The Trust has no definitive plans to re-implement the DRIP at the current time, however, it continues to monitor the current environment and may determine, at some future date that it is in the best interest of the Trust and its unitholders to re-implement this program. Cash flows from financing activities for the quarter ended March 31, 2008 included cash flows related to the issuance of trust units pursuant to the distribution reinvestment plan of \$10.7 million.

## 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.

As at March 31, 2009, the fair value of the reclamation fund was \$62.8 million and the fund was comprised of \$20.8 million in cash and short term investments and \$42.0 million in equity and debt securities. A portion of the cash and short term investments and all of the equity and debt securities are professionally managed by third parties.

## ASSET RETIREMENT OBLIGATION

At March 31, 2009, Vermilion’s asset retirement obligations were \$263.0 million compared to \$265.1 million as at December 31, 2008. The change is attributable to accretion expense offset by changes in estimates, foreign exchange and disposition of liabilities in the period. When appropriate, the Trust engages external third party consultants with relevant experience in reclamation activities in the regions in which Vermilion has operations to assist in estimating its asset retirement obligations.

## DISTRIBUTIONS

Vermilion maintained monthly distributions at \$0.19 per unit for the three month period ended March 31, 2009 and declared distributions totalling \$40.2 million compared to \$39.1 million for the same period in 2008.

Since inception, the Trust has declared \$813.6 million in distributions to unitholders as compared to unitholders’ capital of \$463.3 million at March 31, 2009.

### Sustainability of Distributions

(\$000’s)	Three Months Ended Mar 31, 2009	Year Ended Dec 31, 2008	Year Ended Dec 31, 2007	Year Ended Dec 31, 2006
Cash flows from operating activities	\$54,684	\$660,135	\$349,890	\$306,033
Net earnings	\$19,884	\$229,189	\$164,286	\$146,923
Distributions declared	\$40,173	\$158,674	\$136,389	\$130,638
Excess of cash flows from operating activities over cash distributions declared	\$14,511	\$501,461	\$213,501	\$175,395
Excess (shortfall) of net earnings over cash distributions declared	\$(20,289)	\$ 70,515	\$ 27,897	\$ 16,285

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 partially a result of non-cash charges such as depletion, depreciation and accretion which have no immediate impact on distribution sustainability.

The Trust’s policy with respect to distributions is to be conservative and retain a low payout ratio when comparing distributions to fund flows from operations. During low price commodity cycles, Vermilion will initially maintain distributions and allow the payout ratio to rise. Should the low price cycle remain for an extended period of time, the Trust will evaluate the necessity to change the level of distribution, taking into consideration capital development requirements, debt levels and acquisition opportunities.

Since Vermilion’s conversion to a trust in January 2003, the distribution remained at \$0.17 per unit per month until December 2007. Since then, the distribution has remained at \$0.19 per unit per month.

## **UNITHOLDERS' EQUITY**

During the three month period ended March 31, 2009, approximately 0.8 million units were issued pursuant to the Trust's bonus plan and unit based compensation programs.

Unitholders' capital increased during the same period by \$19.0 million as a result of the issuance of those units including \$15.2 million as a result of contributed surplus transfer related to unit based compensation plans.

As at May 6, 2009 there were 71,028,409 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 sheets 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, 2009 there were 4.1 million exchangeable shares outstanding at an exchange ratio of 1.69991 whereby 6.9 million trust units would be issuable upon conversion. The exchangeable shares can be 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 the 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 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.

## **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, 2009.

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 Vermilion reviews the creditworthiness of the counterparty prior to entering into a derivative contract.

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.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS TRANSITION**

On February 13, 2008, the Accounting Standards Board confirmed that the transition date to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be January 1, 2011 for publically accountable enterprises such as Vermilion.

Vermilion has created an internal IFRS transition team to oversee the Trust's adoption of IFRS and the services of a large international public accounting firm have been retained to assist the Trust in its conversion program. The Trust has completed its scoping diagnostic to determine the areas of significant difference between Canadian GAAP and IFRS and Vermilion's transition team is currently focusing on the design and implementation of policies and processes to allow Vermilion to prepare both IFRS and Canadian GAAP financial statements in 2010 providing for comparative financial statements after the official changeover in 2011.

## **NEW ACCOUNTING POLICIES**

On January 1, 2009 the Trust adopted Section 3064, "Goodwill and Intangible Assets" which replaced Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Section 3064 incorporates guidance addressing when an internally developed intangible asset meets the criteria for recognition as an asset. The adoption of this standard did not impact the Trust's consolidated financial statements.

Effective January 1, 2009 the adopted EIC 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This abstract concludes that for all financial assets and liabilities measured at fair value an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair values of financial assets and financial liabilities, including derivative instruments. The adoption of this abstract did not impact the Trust's consolidated financial statements.

## NETBACKS (6:1)

	Three Months Ended March 31, 2009			Three Months Ended March 31, 2008	
	Oil & NGLs \$/bbl	Natural Gas \$/mcf	Total \$/boe		Total \$/boe
<b>Trust Financial Information</b>					
<b>Canada</b>					
Price	\$45.89	\$5.26	\$36.03		\$62.46
Royalties	(9.10)	(0.78)	(6.04)		(12.49)
Transportation	(1.39)	(0.19)	(1.22)		(1.04)
Operating costs	(11.91)	(1.61)	(10.38)		(10.91)
Operating netback	\$23.49	\$2.68	\$18.39		\$38.02
<b>France</b>					
Price	\$48.40	\$10.52	\$48.70		\$88.61
Realized hedging gain or loss	2.99	-	2.92		(2.74)
Royalties	(5.08)	(0.07)	(4.98)		(5.43)
Transportation	(4.09)	-	(4.01)		(6.55)
Operating costs	(12.60)	(3.85)	(12.81)		(9.94)
Operating netback	\$29.62	\$6.60	\$29.82		\$63.95
<b>Netherlands</b>					
Price	\$34.92	\$12.21	\$73.03		\$58.79
Operating costs	-	(2.50)	(14.94)		(11.19)
Operating netback	\$34.92	\$9.71	\$58.09		\$47.60
<b>Australia</b>					
Price	\$57.58	-	\$57.58		\$100.37
Royalties	(14.72)	-	(14.72)		(30.42)
Operating costs	(10.30)	-	(10.30)		(12.90)
Operating netback	\$32.56	-	\$32.56		\$57.05
<b>Total Trust</b>					
Price	\$51.76	\$7.54	\$49.31		\$76.24
Realized hedging gain or loss	1.19	-	0.75		(0.73)
Royalties	(9.83)	(0.52)	(7.32)		(12.18)
Transportation	(1.89)	(0.13)	(1.47)		(2.14)
Operating costs	(11.50)	(1.93)	(11.52)		(11.08)
Operating netback	\$29.73	\$4.96	\$29.75		\$50.11
General and administration			(2.29)		(1.64)
Interest			(0.60)		(2.04)
Realized foreign exchange			(0.65)		0.18
Current taxes			(3.14)		(6.94)
Fund flows netback			\$23.07		\$39.67
Depletion, depreciation and accretion			(21.22)		(20.76)
Future income taxes			6.14		0.41
Other income or loss			(0.35)		0.73
Unrealized foreign exchange			2.17		(9.36)
Non-controlling interest – exchangeable shares			(0.65)		(0.77)
Equity in affiliate			(0.37)		-
Unrealized gain or loss on derivative instruments			(0.60)		0.41
Fair value of unit compensation			(1.47)		(1.63)
Earnings netback			\$6.72		\$8.70

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.

## DIRECTORS

Larry J. Macdonald <sup>1, 2, 3, 4, 5</sup>  
Chairman & CEO, Point Energy Ltd.  
Calgary, Alberta

W. Kenneth Davidson <sup>2, 3</sup>  
Toronto, Ontario

Lorenzo Donadeo  
President & Chief Executive Officer  
Calgary, Alberta

Claudio A. Ghersinich <sup>2, 4, 5</sup>  
Executive Director  
Carrera Investments Corp.  
Calgary, Alberta

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

<sup>1</sup> Chairman of the Board

<sup>2</sup> Audit Committee

<sup>3</sup> Governance and Human Resources Committee

<sup>4</sup> Health, Safety and Environment Committee

<sup>5</sup> 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

Paul L. Beique  
Vice President Capital Markets

Mona Jasinski, M.B.A., C.H.R.P.  
Vice President People

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

Daniel Goulet, P.Eng.  
Director Production and Operations

### FRANCE

Peter Sider, P.Eng.  
Regional General Manager, European  
Operations

### NETHERLANDS

Scott Ferguson, P.Eng.  
General Manager

### AUSTRALIA

Bruce D. Lake, P.Eng.  
Managing Director

## 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

Canadian Imperial Bank of Commerce  
Calgary, Alberta

Citibank N.A., Canadian Branch  
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 (TSX)  
Symbol: VET.UN  
US OTC: VETMF

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