VERMILION

ENERGY TRUST

ANNUAL REPORT

2008

FINANCIAL STATEMENTS

AND

MANAGEMENT'S DISCUSSION AND ANALYSIS

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ANNUAL AND SPECIAL MEETING

May 8, 2009 at 10:00 a.m.
The Ballroom
Metropolitan Centre
333 – 4th Avenue S.W.
Calgary, Alberta

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

DISCLAIMER

This document contains forward-looking financial and operational information including earnings, cash 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, general economic risks and uncertainties, 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.

PRESIDENT'S MESSAGE TO UNITHOLDERS

Dear Unitholders:

Operationally and financially, 2008 was our best year ever, but unfortunately Vermilion's unit price was not immune to the swift downturn in the stock market and commodity prices that began in late September. While the worst may well be behind us, it is still too early to wave the all-clear flag. I would like to assure unitholders that your investment in Vermilion is being judiciously managed and the long-term outlook continues to look quite positive. Vermilion is in great financial shape and well positioned to weather the current economic storm. In fact, we hope to use our financial strength to acquire strategic properties at prices well below those of recent years to build an even stronger and richer company.

In 2008, the price of oil soared to unimaginable heights, quickly followed by an equally spectacular plummet to four-year lows. Combined with the economic crisis and sharp stock market declines around the world, 2008 wasn't pleasant for the ill prepared. In times like these, the Trust's unitholders can be pleased with Vermilion's disciplined business model and conservative fiscal policies—strategies that have resulted in a balance sheet with very little debt. We believe this will greatly benefit our unitholders, as strong balance sheets have historically been a critical component of our success.

To make the best use of our balance sheet, we want to preserve as much of our 2009 capital as possible for acquisitions as we believe the cost of purchasing assets in this environment will be less than adding new reserves through drilling. Accordingly, we have reduced our development capital to $120 million from our original planned program of between $175 million and $200 million. We also hope to preserve the stability of our distributions. We know that a number of our unitholders depend on this stability and that they respect our decision not to have increased distributions when commodity prices were higher. We'll continue to monitor our financial position to ensure we maintain the appropriate balance between short-term and long-term returns so we can maximize total return for our unitholders.

Our plan is to acquire legacy assets that will provide investors with greater certainty as to our future growth. Our first preference is to acquire producing oil properties, second is natural gas properties in Europe and third is natural gas properties in North America. We will look for new assets in our core areas of Canada, Europe and Australia. That being said, the market for oil and gas producing assets is opportunity-driven and if we find an extraordinary value-enhancing acquisition beyond our core areas, we won't ignore it.

Our balance sheet may soon be even stronger than it is today, pending the sale of Verenex Energy Inc. Vermilion founded Verenex in 2004, in part as a vehicle to create a source of non-dilutive capital for the Trust. The recently announced offer for Verenex proposed by CNPCI is subject to approval from the Libyan government. At the current offer price of $10 per share for Verenex, our ownership interest is worth approximately $188 million. Over the past five years the management and directors of Verenex have virtually tripled our total investment in that company, creating a gain for Vermilion of more than $120 million. Vermilion has sufficient tax pools to fully shelter taxes on this capital gain, and on completion of the transaction, we would be virtually debt-free.

Looking back on 2008, Vermilion generated our fourth consecutive year of record operating and financial results. Unfortunately, the market correction that started last fall affected our unit price, too. With the rapid collapse of stock markets and commodity prices, Vermilion suffered our first year of negative returns as an income trust and our first year-over-year decline in value since 1998. Vermilion's total return in 2008 was a negative 19.8%, second-quartile performance, but still disappointing. While the economy has not yet turned the corner, Vermilion hopes to position the Trust to take full advantage of the world economic recovery and resume the steady positive performance our unitholders have come to expect.

Operationally, our highlights last year included the successful drilling of two infill 'attic oil' wells at Vermilion's offshore Wandoo Field in northwestern Australia. These wells corroborated the efforts of Vermilion's technical teams and established follow-up opportunities for future years. In addition to supporting robust production over an extended period, these wells captured incremental reserves that would otherwise be left behind. We also confirmed the presence of unrecovered reserves along the flanks of the Wandoo field, further boosting our well inventory. Our plan is to drill an additional one to two wells every other year to maximize the performance of this field.

We have positive results in Canada from new completion techniques employed in our tight gas drilling and recompletion programs in the Drayton Valley region. These new processes open a greater range of reservoirs that previously may not have been viewed as commercial and expand the scope of our workover and recompletion opportunities. It is worth noting that because of the efficacy of these new completion techniques, we believe the abundant supply of natural gas in North America will continue and we may be faced with a prolonged price ceiling as a result. While new royalty incentives in Alberta will soften the impact of weak natural gas prices, we will maintain a cautious long-term approach to developing this resource. Nonetheless, we will stay on the lookout for bolt-on acquisitions and strong value opportunities in Canada, focusing on properties within our core areas.

In Europe, Vermilion's light oil properties in France provide some of the Trust's greatest long-term development opportunities. We continue to enhance performance through waterfloods on our three major oil pools at Parentis, Chaunoy and Cazaux. In 2010, we plan to launch a pilot CO_2 flood on one of these pools and we continue to monitor the performance of Total's ongoing Vic Bihl CO_2 pilot in which we have a 27% interest. We believe the opportunity to enhance recoveries from these oil reservoirs combined with the market for CO_2 sequestration in Europe could provide long-term economic and environmental benefits for Vermilion and our stakeholders.

Our drilling inventory in France is as rich and varied as any time in Vermilion's history. In 2009, we will drill three new development wells at Champotran but have deferred the majority of the originally planned 2009 program until oil prices improve. Likewise, we have chosen to postpone our Netherlands drilling program until 2010 to keep our balance sheet strong. The delay in the Netherlands is not expected to have any impact on production in 2009 as the drilling was slated for the second half of the year and no associated production was included in our original forecast.

Vermilion's reduced spending will result in a slight reduction in expected production in 2009, but we are confident success in our acquisition plans will more than offset this decline. Vermilion has always focused on value creation rather than growth, yet our growth rate per Trust unit has continued to be one of the highest in our peer group.

Vermilion continues to strive for excellence in governance and once again, we were rated as one of the best of all income trusts in Canada in this important area. We ranked #3 in *The Globe & Mail*'s annual Board Games in 2008 after topping that survey in 2007.

In 2008, Vermilion proudly made a three-year commitment of $2.5 million to the Vermilion/YWCA Skills Training Centre to help equip women with the skills needed to break the cycle of poverty and gain marketable expertise for careers in Calgary's high-demand construction industry. The 16-week pre-employment and pre-apprenticeship program offers training, mentorship and employment support, and applicants may also qualify for a living wage, housing and childcare. The "Friends of Vermilion"—our company's founders, board members, senior management and staff—feel so strongly this program will help bring sustainable change to Calgary that they have contributed an additional $1.5 million in support of the Centre. As a responsible energy producer, Vermilion is committed to investing in the communities where our staff live and work.

We were greatly saddened recently when Charlie Berard, Vermilion's corporate secretary, passed away. Not only have we lost one of the most practical and bright legal minds in Calgary, more importantly, we have lost a very special person and friend. For over 15 years, Charlie was instrumental in our success, guiding and supporting Vermilion with sage advice when times were good and when they were difficult. Those of us who were fortunate to have known and worked with Charlie will remember a soft-spoken gentleman who was respectful to everyone and always offered kind words. We will remember his quick wit and strong sense of humour and his willingness to help, whether it was on a business assignment or on a personal level. In the journey of life, we occasionally encounter people who are very special, "givers" who do what they can to help others and make the world a better place. We are honoured to have known Charlie and will miss his strong guidance, altruism and kindness, and we will always cherish the memory of his friendship.

For their dedicated efforts in striving for excellence, I thank all of Vermilion's employees and Board of Directors, and for continuing to put your trust in our hands, especially in these challenging times, I thank all of our unitholders.

("Lorenzo Donadeo")

Lorenzo Donadeo
President & Chief Executive Officer
February 26, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis (MD&A) dated March 16, 2009 of Vermilion's operating and financial results for the years ended December 31, 2008 and 2007. This discussion should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2008 and 2007, together with accompanying notes.

A discussion of Vermilion's operating and financial results for the fourth quarter of 2008 is contained in Vermilion's press release dated March 2, 2009 filed on The System for Electronic Document Analysis and Retrieval (SEDAR - www.sedar.com).

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:

	Years Ended December 31	
($000's)	2008	2007
Cash flows from operating activities	$660,135	$349,890
Changes in non-cash operating working capital	(96,369)	31,965
Asset retirement costs incurred	10,200	4,056
Fund flows from operations	$573,966	$385,911

"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:

	Years Ended December 31	
($000's)	2008	2007
Acquisition of petroleum and natural gas properties from consolidated statements of cash flows	$46,466	$121,294
Corporate acquisition, net of cash acquired from consolidated statements of cash flows	1,764	-
Working capital deficiencies acquired from investments and acquisitions (see financial statement notes for relevant period)	-	8,311
Acquisitions, including acquired working capital deficiency	$48,230	$129,605

"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:

	As At December 31	
($000's)	2008	2007
Long-term debt	$197,651	$452,490
Current liabilities	250,275	150,620
Current assets	(240,173)	(186,252)
Net debt	$207,753	$416,858

"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:

	Years Ended December 31	
($000's)	2008	2007
Distributions declared	$158,674	$136,389
Issue of trust units pursuant to the distribution reinvestment plan	(18,453)	(35,992)
Net distributions	$140,221	$100,397

"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. This measure is reconciled to the relevant GAAP measures below:

	Years Ended December 31	
($000's)	2008	2007
Distributions declared	$158,674	$136,389
Issue of trust units pursuant to the distribution reinvestment plan	(18,453)	(35,992)
Drilling and development of petroleum and natural gas properties	186,836	175,639
Contributions to reclamation fund	10,378	-
Asset retirement costs incurred	10,200	4,056
	$347,635	$280,092

"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 December 31	
	2008	2007
Trust units outstanding	70,212,769	67,335,427
Trust units issuable pursuant to exchangeable shares outstanding	6,790,112	6,935,605
Adjusted basic trust units outstanding	77,002,881	74,271,032
Potential trust units issuable pursuant to unit compensation plans	1,917,278	2,999,800
Diluted trust units outstanding	78,920,159	77,270,832

	As At December 31	
	2008	2007
Basic weighted average trust units outstanding	69,548,183	66,122,423
Trust units issuable pursuant to exchangeable shares outstanding	7,108,202	6,935,786
Adjusted basic weighted average trust units outstanding	76,656,385	73,058,209

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.

Highlights ($000's except per unit amounts)	2008	2007	2006
Revenues	$1,001,905	$707,334	$618,072
Net earnings	229,189	164,286	146,923
Per unit, basic	3.30	2.48	2.30
Per unit, diluted	3.23	2.39	2.22
Fund flows from operations	573,966	385,911	342,502
Per unit, adjusted basic	7.49	5.28	4.86
Return on equity (%)	33.2	28.2	29.5
Total assets	1,798,359	1,668,123	1,462,839
WTI (US$/bbl)	99.65	72.34	66.21
AECO (CDN$/mcf)	8.13	6.45	6.53
Realized price ($/boe)	83.61	61.86	61.80
Fund flows netback ($/boe)	$ 47.91	$ 33.75	$ 34.25

2008 Summary of Quarterly Results ($000's except per unit amounts)	Q1	Q2	Q3	Q4
Revenue	$229,459	$341,405	$245,712	$185,329
Net earnings	26,196	102,289	86,949	13,755
Per unit basic	0.38	1.47	1.24	0.20
Per unit diluted	$ 0.37	$ 1.44	$ 1.22	$ 0.19

2007 Summary of Quarterly Results ($000's except per unit amounts)	Q1	Q2	Q3	Q4
Revenue	$148,808	$164,862	$187,939	$205,725
Net earnings	31,347	41,050	48,640	43,249
Per unit basic	0.48	0.62	0.73	0.65
Per unit diluted	$ 0.47	$ 0.60	$ 0.71	$ 0.62

VERMILION ENERGY TRUST OVERVIEW

Mission Statement
"To consistently deliver superior rewards for all our stakeholders"

Vision Statement
"To be recognized as the premier Canadian based international energy trust"

Vermilion's mission and vision statements guide the overall strategy and activities of the Trust. By striving to meet the goals entrenched within these statements, the Trust aims to provide stability for its unitholders through the implementation of a successful strategy, quality assets and proven leadership.

Stability

From the Trust's inception in January, 2003 through November, 2007 the Trust paid a consistent monthly distribution of $0.17. In December, 2007 the Trust increased its distribution by 12% to $0.19 per month and it has maintained that level since. In 2007 Vermilion was the only conventional energy trust to increase distributions and this achievement was a result of the Trust's conservative fiscal practices. Vermilion has paid out the lowest portion of its fund flows from operations in the form of total net distributions, capital expenditures, reclamation fund contributions and asset retirement costs incurred as compared to other conventional energy trusts. The Trust's balance sheet is very strong and is well positioned to weather the recent downturn in commodity prices. Vermilion also has significant upside potential through its interest in Verenex Energy Inc. ("Verenex") which has met with strong success in its exploration activities in Libya.

Vermilion also provides stability by adhering to strong core values at all levels of the Trust. The Trust's Board of Directors has been recognized in corporate governance surveys for excellence in governance practices that included board composition, compensation, shareholder rights, disclosure, accountability and total return performance.

Successful Strategy

Vermilion adheres to a value creation strategy through the execution of asset optimization programs and strategic acquisitions. Vermilion focuses on the development and optimization of mature producing properties in Western Canada, Western Europe and Australia. Vermilion also exposes its unitholders to significant upside opportunities through a combination of equity sponsorship in new ventures and managed participation in high impact projects. The Trust engages in prudent and conservative financial management policies which lay the groundwork for the execution of its strategy.

Quality Assets

Vermilion targets undercapitalized properties that are rich with low risk opportunities for acquisition. As a result of this focus, Vermilion has acquired and further developed quality assets in four different countries.

Canada

Vermilion operates over 800 wells in three core areas, all in Alberta. The properties include a significant light oil field at Utikuma, multiple level, and liquid-rich tight gas reservoirs in the Drayton Valley region and a coalbed methane and shallow gas development in Central Alberta. Vermilion controls approximately 261,485 net acres of land and operates significant oil and natural gas processing facilities with combined throughput of more than 100,000 bbls/d of fluids and 90 mmcf/d of natural gas. Vermilion maintains a steady program of drilling and recompletions in the Drayton Valley region and is evaluating new completion techniques that are revitalizing some of these challenging fields. The Trust employs reservoir optimization techniques to improve recoveries from the Utikuma reservoir and will continue to manage the long-term development of its coalbed methane assets.

France

The Trust initially acquired its France assets in 1997 and in 2006 Vermilion added additional and complementary assets to its French asset base. Vermilion's properties in France produce 98% oil and include three massive fields at Chaunoy, Cazaux and Parentis. The Trust is focusing on increasing oil recovery from these fields to extend their reserve life. Vermilion's reserve life index in France is greater than 13 years and these properties represent a core focus of Vermilion's operations and a stable source of our production.

Netherlands

Acquired in 2004, Vermilion's Netherlands assets produce natural gas which is sold in a regulated environment at an oil-based index price. Vermilion believes that there are numerous potential prospects in this region and has plans to recommence drilling in the Netherlands in 2010.

Australia

Vermilion initially acquired a 60% interest in the Wandoo field, offshore the northwest shelf of Australia, in 2005. In 2006 and 2007, Vermilion significantly expanded fluid handling and processing capacity on the platform from approximately 114,000 bbls to 150,000 bbls. In 2007 the Trust acquired the remaining 40% of this oil producing asset. In December 2008, the Trust announced it had successfully drilled and completed two new 'attic oil' wells and Vermilion intends to continue to review development opportunities in this field.

Proven Leadership

The members of Vermilion's executive management team average more than 20 years of operating experience and are led by Lorenzo Donadeo, President and CEO, who is one of the three co-founders of the predecessor company, Vermilion Resources Ltd. Vermilion and its management team have a strong track record of providing high returns to its unitholders.

2008 REVIEW AND 2009 GUIDANCE

The following table summarizes the Trust's 2008 actual results as compared to guidance and the Trust's 2009 guidance:

($000's except production amounts)	Capital Expenditures	Production
2008 Guidance		
Provided March 3	$182,000	31,000 – 32,000 boe/d
Updated May 2	$210,000	32,000 – 33,000 boe/d
2008 Actual	$186,836	32,741 boe/d
2009 Guidance	$120,000	30,000 – 31,000 boe/d

Vermilion provided initial guidance as to its expected 2008 development capital expenditure program and production forecast in March 2008, corresponding with the release of 2007 year-end results. The initial production guidance figures include the impact of Vermilion's January 2008 acquisition of approximately 1,000 boe/d of production for $47 million. By May, oil price expectations had risen even further and Vermilion expanded both its production guidance figures and expected development capital program. Vermilion was able to achieve its full-year 2008 production guidance figures, due largely to strong performance from Canadian operations. Development capital expenditures for 2008 came in below guidance levels due mostly to the deferral of the Parentis and Les Mimosas drilling programs in France.

OPERATIONAL ACTIVITIES

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 barrel of oil equivalent ("boe") is based on a conversion rate of six thousand cubic feet of natural gas to one barrel of oil and is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Canada

In Canada, the Trust participated in the drilling of 44 wells (29.1 net) during 2008, resulting in 34 gas wells (22.9 net), two oil wells (2.0 net), one abandoned wells (1.0 net) and seven standing wells (3.2 net) awaiting further evaluation and tie-in. The total wells include 24 CBM and shallow gas wells (16.8 net).

France

In France, Vermilion participated in the drilling and completion of one oil well (0.2 net) at Itteville in the Paris Basin. An active workover and recompletion program across all of its properties was instrumental in holding production declines to minimal levels, despite the low drilling activity. As well, much time and capital was focused on the repair and maintenance of surface facilities in the Chaunoy field acquired in 2006. Depending on commodity price strength, a significant increase in well workovers and recompletions is scheduled for France in 2009.

Netherlands

In the Netherlands, Vermilion focused efforts on the permitting process for six new wells. One of these in the Harlingen area has been shelved indefinitely, while approvals on the remaining five permits are in various stages of completion. Vermilion has deferred the drilling of these wells, which were to begin in the second half of 2009. No production from these wells was included in any of Vermilion's previous forecasts for 2009.

Australia

Vermilion completed the successful drilling of two infill wells in the Wandoo field. These wells were completed higher up in the reservoir under the assumption that the significant aquifer drive had physically forced the oil column upward. The projections appear accurate as these two wells were completed in a clean oil (no water) column and continue to produce 1,000 bbls/d of water-free oil each after 60 days on production. Prior to drilling the first horizontal well a vertical section was drilled to test the presence of un-recovered oil on the flank of the Wandoo reservoir. Early indications suggest that this oil may be recoverable through future development drilling. Vermilion will continue to evaluate the performance of these recent wells and begin the planning of additional development drilling, hopefully by 2010.

PRODUCTION

Average production in Canada during 2008 was 4,172 bbls/d of oil and NGLs and 51.2 mmcf/d of natural gas (12,696 boe/d) compared to 4,081 bbls/d of oil and NGLs and 47.7 mmcf/d of natural gas (12,038 boe/d) in 2007, representing a year-over-year increase of 5.5%. Fourth quarter 2008 production averaged 12,448 boe/d, compared to 12,065 boe/d in the fourth quarter of 2007.

Production in France averaged 8,710 boe/d in 2008, 1.1% lower than the 8,809 boe/d produced in 2007, reflecting a limited drilling program. Fourth quarter production of 8,630 boe/d in 2008 was 3.5% lower than the 8,946 boe/d produced in France during the fourth quarter of 2007.

Production in the Netherlands averaged 4,562 boe/d in 2008, an increase of 3.4% from the 4,413 boe/d recorded in 2007, due primarily to the tie-in of the 2007 wells, less the impact of the shut-down at Harlingen. Fourth quarter production averaged 4,043 boe/d in 2008 compared with 4,468 boe/d during the same period in 2007.

Australia production averaged 6,773 boe/d in 2008, compared to 6,065 boe/d in 2007 as Vermilion benefitted from a full year of production at 100% ownership of the field. Production during the fourth quarter of 2008 averaged 7,117 boe/d, compared to 7,591 boe/d during the same period in 2007, reduced slightly by the interruption of drilling activities, some platform maintenance and year-end cyclone activity. Current production levels have approached 9,000 boe/d although first quarter cyclone activity is expected to dampen that number somewhat.

	Year Ended December 31, 2008			Year Ended December 31, 2007			Year Ended December 31, 2006		
	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)
Canada	4,172	51.15	12,696	4,081	47.74	12,038	4,011	40.99	10,843
France [2]	8,514	1.17	8,710	8,621	1.13	8,809	7,576	1.35	7,800
Netherlands	24	27.23	4,562	40	26.24	4,413	31	29.47	4,943
Australia [1]	6,773	-	6,773	6,065	-	6,065	3,815	-	3,815
Total	19,483	79.55	32,741	18,807	75.11	31,325	15,433	71.81	27,401

[1] Acquisition of remaining 40% interest effective June 20, 2007
[2] Vermilion Emeraude REP SAS effective from July 10, 2006

2008 Quarterly Production (boe/d)	Q1	Q2	Q3	Q4
Canada	12,730	12,915	12,693	12,448
France	8,800	8,536	8,872	8,630
Netherlands	5,096	4,980	4,142	4,043
Australia	6,446	7,312	6,220	7,117
Total	33,072	33,743	31,927	32,238

2007 Quarterly Production (boe/d)	Q1	Q2	Q3	Q4
Canada	12,054	12,351	11,686	12,065
France	8,055	9,221	9,002	8,946
Netherlands	4,754	3,904	4,529	4,468
Australia [1]	4,227	5,440	6,955	7,591
Total	29,090	30,916	32,172	33,070

[1] Acquisition of remaining 40% interest effective June 20, 2007

CAPITAL EXPENDITURES

Capital spending, including acquisitions for the year totaled $235.1 million compared to $296.9 million spent in 2007. The costs incurred to drill and complete two new offshore Australia wells during the fourth quarter of 2008 resulted in increased non-acquisition capital spending year over year. Acquisition related capital spending decreased on a year to date basis from the prior year as a result of the 2007 acquisition of the remaining 40% interest in the Wandoo field, offshore Australia for $117.9 million as compared to purchase in the first quarter of 2008 of $44.1 million of producing properties in the Drayton Valley area in Canada.

Capital Expenditures ($000's)	2008	2007	2006
Land	$ 5,183	$ 3,484	$ 2,025
Seismic	10,989	491	2,555
Drilling and completion	78,542	89,081	48,559
Production equipment and facilities	56,974	61,586	58,160
Recompletions	19,789	11,021	15,280
Other	15,359	9,976	10,360
	186,836	175,639	136,939
Acquisitions (excluding acquired working capital deficiency)	48,230	121,294	151,039
	$235,066	$296,933	$287,978

Capital Expenditures by Country ($000's)	2008	2007	2006
Canada	$103,725	$ 69,713	$111,216
France	55,669	73,504	164,523
Netherlands	13,019	22,275	3,673
Australia	62,653	131,441	8,566
	$235,066	$296,933	$287,978

FINANCIAL REVIEW

During the year ended December 31, 2008, the Trust generated fund flows from operations of $574.0 million compared to $385.9 million in 2007. The year over year increase in fund flows from operations of $188.1 million is largely the result of higher average commodity prices in 2008 versus 2007. The GAAP measure, cash flows from operating activities similarly increased year over year to $660.1 million for the year ended December 31, 2008 from $349.9 million for 2007.

Increased year over year fund flows from operations have allowed Vermilion to further strengthen its financial position and at December 31, 2008 the Trust's net debt was $207.8 million which represents a decrease of 50% from the net debt of $416.9 million at December 31, 2007. The Trust's long-term debt has decreased to $197.7 million at December 31, 2008 from $452.5 million at December 31, 2007. At December 31, 2008 Vermilion's net debt represented less than 40% of its fourth quarter annualized fund flows from operations.

For the year ended December 31, 2008 total net distributions, capital expenditures, reclamation fund contributions and asset retirement costs incurred as a percentage of fund flows from operations was 61% versus 73% for the corresponding period in the prior year. The year over year improvement in this metric relates to the significantly higher fund flows from operations achieved in 2008 versus 2007 which was associated with higher average commodity prices during 2008.

FUND FLOWS NETBACKS

Fund flows from operations was $574.0 million in 2008, as compared to $385.9 million in 2007 due to higher average commodity prices during 2008.

2008 Fund Flows Netback ($/boe)	Q1	Q2	Q3	Q4	2008	2007	2006
Oil and gas revenues	$76.24	$111.19	$83.65	$62.49	$83.61	$61.86	$61.80
Realized hedging gain or (loss)	(0.73)	(1.94)	(1.51)	0.66	(0.89)	(0.25)	(0.02)
Royalties	(12.18)	(18.35)	(12.03)	(0.83)	(10.92)	(8.53)	(9.22)
Transportation	(2.14)	(1.94)	(1.70)	(2.08)	(1.96)	(2.01)	(1.05)
Operating costs	(11.08)	(10.78)	(12.10)	(14.01)	(11.98)	(10.45)	(9.65)
Operating netback	50.11	78.18	56.31	46.23	57.86	40.62	41.86
General and administration	(1.64)	(2.33)	(2.57)	(1.76)	(2.07)	(1.64)	(1.58)
Interest	(2.04)	(1.67)	(0.91)	(0.80)	(1.36)	(1.95)	(1.68)
Current taxes	(6.94)	(13.58)	(6.77)	(0.46)	(6.99)	(2.98)	(4.29)
Proceeds on sale of investments	-	-	0.02	-	0.01	0.11	-
Foreign exchange	0.18	1.39	(1.22)	1.42	0.46	(0.41)	(0.06)
Fund flows netback	$39.67	$ 61.99	$44.86	$44.63	$47.91	$33.75	$34.25

2007 Fund Flows Netback ($/boe)	Q1	Q2	Q3	Q4
Oil and gas revenues	$56.83	$58.60	$63.50	$67.62
Realized hedging gain or (loss)	0.31	(0.11)	0.01	(1.11)
Royalties	(6.76)	(7.32)	(10.18)	(9.57)
Transportation	(1.58)	(2.30)	(2.13)	(1.97)
Operating costs	(10.40)	(9.91)	(10.16)	(11.28)
Operating netback	38.40	38.96	41.04	43.69
General and administration	(2.15)	(1.69)	(1.55)	(1.24)
Interest	(1.76)	(1.68)	(2.14)	(2.18)
Current taxes	(5.37)	(3.23)	(3.44)	(0.23)
Proceeds on sale of investments	-	-	-	0.40
Foreign exchange	(0.11)	(2.11)	(0.54)	1.03
Fund flows netback	$29.01	$30.25	$33.37	$41.47

REVENUE

Revenue for the year ended December 31, 2008 was $1.0 billion compared $707.3 million in 2007. Vermilion's combined crude oil and NGL price was $101.32 per boe in 2008, an increase of 36.8% over the $74.08 per boe reported in 2007. The natural gas price realized was $9.60 per mcf in 2008 compared to $7.25 per mcf in 2007, a 32.4% increase year over year. Vermilion's higher revenue year over year was associated with higher average commodity prices in 2008 versus 2007.

	Years Ended December 31	
($000's except per boe and per mcf)	2008	2007
Crude oil & NGLs	$722,512	$508,540
Per boe	$101.32	$74.08
Natural gas	279,393	198,794
Per mcf	$9.60	$7.25
Petroleum and natural gas revenue	$1,001,905	$707,334
Per boe	$83.61	$61.86

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 December 31, 2008:

Risk Management: Oil	Funded Cost	bbls/d	US$/bbl
Collar - BRENT			
2009	US$1.00/bbl	500	$100.50 - $200.00
Call Spread - BRENT			
2009 - 2011	US$5.73/bbl	700	$ 65.00 - $ 85.00

The impact of Vermilion's economic hedging program decreased the fund flows netback by $0.89 per boe for the year ended December 31, 2008 as the price of oil was in excess of the ceiling on the majority of the Trust's collars for much of the year. This compares to a hedging cost of $0.25 per boe in 2007.

ROYALTIES

Consolidated royalties for the year ended December 31, 2008 were $10.92 per boe as compared to $8.53 per boe in 2007. As a percent of revenue for the year ended December 31, 2008, royalties were 13% as compared to 14% in 2007.

In the fourth quarter of 2008 Vermilion had a very active capital program in Australia which resulted in the Trust realizing significant royalty relief in that jurisdiction. The level of capital expenditures associated with the drilling and completion of two offshore wells was sufficiently large that the Trust received a one-time rebate on previously paid royalties.

In Canada, royalties as a percent of revenue for the year ended December 31, 2008 remained relatively consistent at 19.5% as compared to 19.2% in the prior year. The new royalty framework and the related revisions announced by the Alberta government are not expected to significantly change Vermilion's Canadian royalties as a percent of revenue in 2009.

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 for 2008, royalties as a percent of revenue were lower at 5.9% versus 6.6% in the prior year due to higher average commodity prices in 2008.

Production in the Netherland is not subject to royalties.

	Years Ended December 31	
($000's except per boe and per mcf)	2008	2007
Crude oil & NGLs	$96,736	$73,933
Per boe	$13.57	$10.77
Natural gas	34,092	23,585
Per mcf	$1.17	$0.86
Royalties	$130,828	$97,518
Per boe	$10.92	$8.53

OPERATING COSTS

Consolidated operating costs per boe for the year ended December 31, 2008 were $11.98 compared to $10.45 for 2007. Canadian operating costs have increased to $10.48 per boe from $9.49 per boe in 2007 as a result as a result of a higher electrical power and salary costs coupled with slightly lower production.

Operating costs in France increased in 2008 to $11.98 per boe compared to $9.21 per boe in 2007. This increase is attributable to significant well intervention work that was performed in the fourth quarter of 2008. 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 increased to $14.64 per boe in 2008 from $13.19 per boe in 2007 as a result of increased levels of diesel and power consumption.

On a year to date basis, operating costs in the Netherlands increased in 2008 to $12.19 per boe versus $11.80 per boe in 2007 due to higher power and salary costs while production was relatively consistent year over year.

	Years Ended December 31	
($000's except per boe and per mcf)	2008	2007
Crude oil & NGLs	$90,250	$75,102
Per boe	$12.66	$10.94
Natural gas	53,288	44,415
Per mcf	$1.83	$1.62
Operating	$143,538	$119,517
Per boe	$11.98	$10.45

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. The majority of Vermilion's transportation costs are made up of shipping charges incurred in the Aquitaine Basin in France where oil production is transported by tanker from the Ambès terminal in Bordeaux to 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. In early March 2008, Vermilion resumed transporting crude to the Ambès terminal via pipeline and all trucking operations 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 are relatively consistent year over year and will continue to be higher than pre-January 2007 levels until full resumption of terminal operations occurs, which is expected during the second half of 2009.

	Years Ended December 31	
($000's except per boe)	2008	2007
Transportation	$23,545	$22,926
Per boe	$1.96	$2.01

GENERAL AND ADMINISTRATION EXPENSE

General and administration expenses per boe for the year ended December 31, 2008 were $2.07 as compared to $1.64 in 2007. The increase per boe from 2007 is associated with information technology project expenses and higher business development costs as well as an overall increase in consulting costs. The increase in business development costs are a result of higher activity levels whereby more acquisition opportunities were evaluated. Consultants are used frequently by Vermilion to complement staff during times of peak workload and to facilitate project work.

	Years Ended December 31	
($000's except per boe)	2008	2007
General and administration	$24,837	$18,726
Per boe	$2.07	$1.64

UNIT BASED COMPENSATION EXPENSE

Non-cash unit based compensation expense for the year ended December 31, 2008 was $18.4 million as compared to $14.0 million in 2007. For 2008, this expense relates to the value attributable to long-term incentives granted to officers, directors and employees under the Trust Unit Award Incentive Plan. The 2007 figures also include expense associated with the Trust Unit Rights Incentive Plan, the value of which had been fully amortized by December 31, 2007 resulting in no expense for this plan being recognized in 2008.

The year over year increase in the expense compared to 2007 is associated with an adjustment to the Trust's estimates related to its Trust Unit Award Incentive Plan that was recorded in the fourth quarter of 2007.

	Years Ended December 31	
($000's except per boe)	2008	2007
Unit based compensation expense	$18,388	$13,985
Per boe	$1.53	$1.22

INTEREST EXPENSE

Interest expense for the year ended December 31, 2008 was $16.3 million as compared to $22.3 million in 2007. The decrease in interest expense in 2008 versus 2007 is a result of significantly lower debt levels.

	Years Ended December 31	
($000's except per boe)	2008	2007
Interest	$16,331	$22,330
Per boe	$1.36	$1.95

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

Depletion, depreciation and accretion expenses per boe for the year ended December 31, 2008 were $21.32 as compared to $18.49 in 2007. Depletion, depreciation and accretion rates in 2008 have increased from the rates per boe in 2007 due primarily to higher finding, development and acquisition costs incurred by the Trust.

	Years Ended December 31	
($000's except per boe)	2008	2007
Depletion, depreciation and accretion	$255,473	$211,397
Per boe	$21.32	$18.49

TAXES

Vermilion is subject to current taxes in France, the Netherlands and Australia. Current taxes for the year ended December 31, 2008 increased to $83.8 million compared to $34.0 million in the prior year. This increase is attributable to the significant increase in year over year revenues associated with higher commodity prices in 2008. Current taxes for the fourth quarter of 2008 were significantly lower than the expense recorded in prior quarters in 2008 as a result of lower average commodity prices as well as certain deductions taken in France, the Netherlands and Australia in the fourth quarter of 2008.

As at December 31, 2008, Vermilion had the following tax pools:

($000's)	Oil & Gas Assets		Tax Losses	Other	Total
Canada	$313,519	(1)	$186,253	$1,721	$501,493
France	59,249	(2)	60,854	-	120,103
Australia	202,083	(1)	-	-	202,083
Netherlands	65,036	(2)	-	-	65,036
Total	$639,887		$247,107	$1,721	$888,715

(1) Deduction calculated by various declining balance rates
(2) Deduction calculated by unit of production method

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 SIFT 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 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%. However, the related income tax regulations for calculating the provincial SIFT tax rate have not been published and therefore are not considered to be substantively enacted As a result, Vermilion has used the deemed 13% provincial rate to calculate its future taxes.

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. As of December 31, 2008 the legislation has not been enacted.

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.

	Years Ended December 31	
($000's except per boe)	2008	2007
Current taxes	$83,804	$34,033
Per boe	$6.99	$2.98

FOREIGN EXCHANGE

For the year ended December 31, 2008, a combined realized and unrealized foreign exchange loss of $47.1 million was recorded compared to a gain of $11.5 million in 2007. The combined loss through December 31, 2008 is comprised of a realized gain of $5.5 million and an unrealized, non-cash loss of $52.6 million. The year to date unrealized loss is largely related to the translation to Canadian dollars of foreign currency denominated future income taxes and asset retirement obligations. Since December 31, 2007, the Canadian dollar weakened significantly against the Euro resulting in this unrealized loss.

	Years Ended December 31	
($000's except per boe)	2008	2007
Foreign exchange loss (gain)	$47,110	$(11,533)
Per boe	$3.93	$(1.01)

EARNINGS

Net earnings for the year ended December 31, 2008 were $229.2 million or $3.30 per unit as compared to $164.3 million or $2.48 per unit in 2007. The increase in earnings for 2008 versus 2007 is largely associated with higher average commodity price levels in 2008 as compared to the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Vermilion's net debt as at December 31, 2008 was $207.8 million compared to $416.9 million as at December 31, 2007.

As at December 31, 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.

Vermilion purchased 72,800 shares in Verenex Energy Inc. ("Verenex") during the first quarter of 2008 for total consideration of $0.6 million. After reflecting these additional shares, Vermilion owned 18.8 million shares representing 42.4% of the outstanding shares of Verenex as at December 31, 2008.

On February 24, 2008 Verenex entered into an agreement under which a company has 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 has agreed to tender its common shares in Verenex under the offer. Vermilion holds 18.8 million shares in Verenex and accordingly, the Trust's proceeds from a successful transaction would be approximately $187.6 million.

The completion of this transaction is subject to a number of conditions including consent from the Libyan National Oil Corporation and valid acceptance of the offer by at least 66.7% of Verenex's shareholders as well as other governmental and regulatory approvals.

On May 14, 2008, Vermilion suspended the distribution reinvestment plan. This suspension was effective June 16, 2008 and was the result of continued high commodity prices resulting in fund flows from operations that were in excess of the level needed to sustain the Trust's business model. Cash flows from financing activities for the years ended December 31, 2008 and 2007 included cash flows related to the issuance of trust units pursuant to the distribution reinvestment plan of $18.5 million and $36.0 million, respectively.

Liquidity and Capital Resources	2008	2007	2006
Net debt ($m)	$207,753	$416,858	$354,809
Bank facility ($m)	$675,000	$625,000	$500,000
Unused bank facility ($m)	$467,247	$208,142	$145,191
Net debt to fund flows from operations ratio [1]	0.36	1.08	1.04
Net debt to equity ratio [1]	0.28	0.66	0.66

[1] These are non-GAAP measures and may not be comparable to similar measures for other entities.

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

Internally generated cash is used primarily for distributions, development capital requirements and contributions to the Trust's reclamation fund. Internal cash flow is significantly influenced by commodity prices. Other risks include exchange rates, interest rates and marketing opportunities, among others. Vermilion's business model generally maintains total distributions and capital development expenditures below internally generated cash, using the excess to reduce outstanding indebtedness. At times, the volatility of commodity prices and/or requirements of certain capital programs may result in total distributions and capital development expenditures exceeding internally generated cash for short periods.

Future significant acquisitions of producing properties are expected to be financed through additional bank debt combined with the issuance of trust units, if necessary. The Trust's ability and desire to finance acquisitions through the issuance of equity is dependent upon the nature of the market for the issuance of equity as well as the size of the potential acquisition. It is Vermilion's preference to finance acquisitions with debt whenever practicable. In the event that the Trust considers equity financing appropriate, its ability to issue equity is highly dependent on the receptivity of the equity markets. In recent years, there has been an active market for equity financing of Canadian resource trusts. In the current environment, the financial crisis has put significant risk on the trust sector's ability to equity finance.

Payments due by period (Cdn $000's)

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations [1]	197,651	-	197,651	-	-
Operating lease obligations	53,015	4,063	10,224	7,862	30,866
Total	250,666	4,063	207,875	7,862	30,866

[1] Does not include interest

In addition, the Trust has various other commitments associated with its business operations, none of which in management's view, are significant.

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 December 31, 2008, the fair value of the reclamation fund was $63.4 million and the fund was comprised of $21.7 million in cash and short term investments and $41.7 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 December 31, 2008, Vermilion's asset retirement obligation was $265.1 million compared to $163.4 million as at December 31, 2007. The increase is largely attributable to changes in estimates relating to the Trust's future obligations as well as the impact of exchange rates on foreign currency denominated obligations.

During the years ended December 31, 2008 and 2007, the Trust completed reviews of its estimates of the expected costs to reclaim the net interest in its wells and facilities. As a result of significantly higher Canadian reclamation costs which have been observed by the industry as a whole, Vermilion adjusted its asset retirement obligations to reflect these increased estimated future costs. 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 year ended December 31, 2008 and declared distributions totalling $158.7 million compared to $136.4 million for the same period in 2007.

Since inception, the Trust has declared $773.4 million in distributions to unitholders as compared to unitholders' capital of $444.4 million at December 31, 2008.

Proceeds from the Trust's distributions reinvestment program were $18.5 million in 2008 (2007 - $36.0 million).

Sustainability of Distributions

($000's)

	Three Months Ended Dec 31, 2008	Year Ended Dec 31, 2008	Year Ended Dec 31, 2007	Year Ended Dec 31, 2006
Cash flows from operating activities	$142,983	$660,135	$349,890	$306,033
Net earnings	$ 13,755	$229,189	$164,286	$146,923
Distributions declared	$ 40,022	$158,674	$136,389	$130,638
Excess of cash flows from operating activities over cash distributions declared	$102,961	$501,461	$213,501	$175,395
Excess (shortfall) of net earnings over cash distributions declared	$ (26,267)	$ 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 a result of the unrealized, non-cash foreign exchange loss recorded during the quarter and has 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 year ended December 31, 2008, 2.9 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.

In October 2008 the Trust acquired and then cancelled 45,600 of its own units pursuant to a normal course issuer bid. The cost to acquire these units was $1.2 million and this transaction resulted in a decrease to unitholders' capital and retained earnings of $0.3 million and $0.9 million, respectively.

Unitholders' capital increased during the same period by $46.4 million as a result of the issuance of those units, $17.3 million as a result of contributed surplus transfer related to unit based compensation plans with a decrease of $0.3 million as a result of the unit buyback.

As at March 16, 2009 there were 70,240,669 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 December 31, 2008 there were 4.1 million exchangeable shares outstanding at an exchange ratio of 1.66196 whereby 6.8 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.

RISK MANAGEMENT

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

To mitigate these risks whenever possible, Vermilion seeks to hire personnel with experience in specific areas. In addition, the Trust provides continued training and development to staff to further develop their skills. When appropriate, Vermilion uses third party consultants with relevant experience to augment its internal capabilities with respect to certain risks.

Vermilion considers its commodity price risk management program as a form of insurance that protects its cash flow and rate of return. The primary objective of the risk management program is to support Vermilion's distributions and its internal capital development program. The level of commodity price risk management that occurs is highly dependent on the amount of debt that the Trust is carrying. When debt levels are higher, Vermilion will be more active in protecting its cash flow stream through its commodity price risk management strategy.

When executing its commodity price risk management programs, Vermilion uses over-the-counter financial structures as well as fixed/collar structures to economically hedge a part of its physical natural gas and oil sales. Vermilion has strict controls and guidelines in relation to these activities and contracts only with counter parties that have high credit ratings.

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

CURRENCY RISK

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

CRITICAL ACCOUNTING ESTIMATES

The 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.

SENSITIVITIES

Crude oil and natural gas prices may change significantly because of factors Vermilion cannot control. The following table provides a summary of estimated sensitivities to price fluctuations for pro-forma production levels and expenses for the year ended December 31, 2008.

	Change in Cash Available for Distributions Per Unit and Exchangeable Shares	Change in Cash Available for Distributions
Change in crude oil price by US$1.00/bbl	$0.09	$6.8 million
Change in natural gas price by Cdn$0.10/mcf	$0.02	$1.7 million
Change in interest rate by one point	$0.03	$2.5 million
Change in Cdn/U.S. foreign exchange rate by one point	$0.05	$3.6 million
Change in Cdn/Euro foreign exchange rate by one point	$0.01	$0.7 million

OFF BALANCE SHEET ARRANGEMENTS

The Trust has certain lease agreements that are entered into in the normal course of operations. All leases are operating leases and accordingly no asset or liability value has been assigned in the balance sheet as of December 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 prior to entering into a derivative contract Vermilion reviews the creditworthiness of the counterparty.

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

ENVIRONMENT, HEALTH AND SAFETY

Vermilion remains committed to conducting its activities in a manner that will protect the health and safety of its employees, contractors and the Public. Vermilion will maintain health, safety and environmental practices and procedures that comply with regulatory requirements and industry standards. It is a condition of employment that Vermilion personnel work safely and in accordance with established regulations and procedures.

In 2008, Vermilion remained committed to the principles of the Environment, Health and Safety Stewardship Program set out by the Canadian Association of Petroleum Producers. This voluntary initiative promotes continual improvement in the areas of environment, health and safety performance, supplemented by progress reports to stakeholders.

Vermilion continued its commitment to reduce impacts to land, water and air, as policies and procedures, demonstrating leadership in these areas, were maintained and further developed in 2008. Examples of accomplishments during the year included:

- Development and implementation of Vermilion's Health Safety and Environment Management System;
- Reducing long-term environmental liabilities through decommissioning, abandoning and reclaiming well leases and facilities;
- Continuous auditing and management inspections;
- Reducing waste products by reducing, recycling and recovering; and
- Continuing risk management efforts with detailed emergency-response planning.

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

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, 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2008, the CICA issued Section 3064 – "Goodwill and Intangible Assets" to replace Sections 3062 – "Goodwill and Other Intangible Assets" and 3450 – "Research and Development Costs". Section 3064 incorporates guidance addressing when an internally developed intangible asset meets the criteria for recognition as an asset. This Section is effective for fiscal years beginning on or after October 1, 2008. The Trust does not anticipate that the adoption of this standard will have a material impact on its results of operations and financial position.

In January 2009, the CICA issued Section 1582 – "Business Combinations", Section 1601– "Consolidated Financial Statements" and Section 1602 – "Non-controlling Interests". These new sections are effective for years beginning on or after January 1, 2011 with earlier adoption permitted. Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners, members or participants. Finally, acquisition costs are not part of the consideration and, with the exception of trust unit issue costs, acquisition-related costs are to be expensed when incurred. Vermilion is current assessing the potential impact and whether or not it will elect to adopt these standards in advance of the transition to IFRS.

CORPORATE GOVERNANCE

Vermilion is committed to a high standard of corporate governance practices, a dedication that begins at Board level and extends throughout the Trust. We believe good corporate governance is in the best interest of our unitholders, and that successful companies are those that deliver growth and a competitive return along with a commitment to the environment, to the communities where they operate and to their employees. We comply with the objectives and guidelines relating to corporate governance adopted by the Toronto Stock Exchange. In addition, the Board monitors and considers the implementation of corporate governance standards proposed by various regulatory and non-regulatory authorities in Canada. A full examination of our corporate governance policies will be provided in our Annual Information Circular, which will be filed on SEDAR (www.sedar.com) and mailed to all unitholders by March 31, 2009.

DISCLOSURE CONTROLS AND PROCEDURES

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

As of December 31, 2008 the Trust has evaluated the effectiveness of the design and operation of the Trust's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded and certified that the Trust's disclosure controls and procedures are effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has assessed the effectiveness of the Trust's internal control over financial reporting as defined in Rule 13a-15 under the US Securities Exchange Act of 1934 and as defined in Canada by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Management concluded that the Trust's internal control over financial reporting was effective as of December 31, 2008. The effectiveness of the Trust's internal control over financial reporting as of December 31, 2008 has been audited by Deloitte & Touche LLP, as reflected in their report for 2008. No changes were made to the Trust's internal control over financial reporting during the year ending December 31, 2008, that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

MANAGEMENT'S REPORT TO UNITHOLDERS

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

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

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

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

("Lorenzo Donadeo")

Lorenzo Donadeo
President & Chief Executive Officer
March 16, 2009

("Curtis W. Hicks")

Curtis W. Hicks
Executive Vice President & Chief Financial Officer

AUDITORS' REPORT

To the Unitholders of Vermilion Energy Trust:

We have audited the consolidated balance sheets of Vermilion Energy Trust (the "Trust") as at December 31, 2008 and 2007 and the consolidated statements of earnings, comprehensive income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

On March 16, 2009, we reported separately to the Board of Directors of Vermilion Resources Ltd. and to the Unitholders of Vermilion Energy Trust on our audits, conducted in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), of the consolidated financial statements for the same periods, prepared in accordance with Canadian generally accepted accounting principles, but which included Note 24, Differences Between Canadian and United States of America Generally Accepted Accounting Principles.

("Deloitte & Touche LLP")

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta
March 16, 2009

Consolidated Balance Sheets
December 31
(Thousands of Canadian dollars)

	2008	2007
ASSETS		
Current		
Cash and cash equivalents (Notes 2 and 19)	$ 67,231	$ 47,868
Short-term investments (Note 2)	9,491	-
Accounts receivable	123,794	119,645
Crude oil inventory	12,167	11,033
Derivative instruments (Note 13)	11,638	37
Prepaid expenses and other	15,852	7,669
	240,173	186,252
Derivative instruments (Note 13)	3,566	9,515
Long-term investments (Note 16)	63,752	63,128
Goodwill	19,840	19,840
Reclamation fund (Note 6)	63,399	57,928
Capital assets (Note 5)	1,407,629	1,331,460
	$1,798,359	$1,668,123
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 179,312	$ 128,858
Distributions payable to unitholders	13,340	12,794
Derivative instruments (Note 13)	-	7,450
Income taxes payable	57,623	1,518
	250,275	150,620
Long-term debt (Note 7)	197,651	452,490
Asset retirement obligations (Note 6)	265,101	163,374
Future income taxes (Note 8)	245,799	205,702
	958,826	972,186
Non-controlling interest - exchangeable shares (Note 10)	84,523	68,576
UNITHOLDERS' EQUITY		
Unitholders' capital (Note 9)	444,353	380,941
Contributed surplus (Note 9)	29,698	29,211
Retained earnings	280,959	217,209
	755,010	627,361
	$1,798,359	$1,668,123

APPROVED BY THE BOARD

("W. Kenneth Davidson) *("Lorenzo Donadeo")*

W. Kenneth Davidson, Director Lorenzo Donadeo, Director

Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings
Years Ended December 31
(Thousands of Canadian dollars, except unit and per unit amounts)

	2008	2007
REVENUE		
Petroleum and natural gas revenue	$ 1,001,905	$ 707,334
Royalties	(130,828)	(97,518)
	871,077	609,816
EXPENSES AND OTHER EXPENSE OR INCOME		
Operating	143,538	119,517
Transportation	23,545	22,926
Unit based compensation (Note 11)	18,388	13,985
Loss (gain) on derivative instruments (Note 13)	(2,477)	7,013
Interest	16,331	22,330
General and administration	24,837	18,726
Foreign exchange loss (gain)	47,110	(11,533)
Other expense (income)	5,261	(1,106)
Depletion, depreciation and accretion	255,473	211,397
	532,006	403,255
EARNINGS BEFORE INCOME TAXES AND OTHER ITEMS	339,071	206,561
INCOME TAXES (NOTE 8)		
Future	4,003	(9,325)
Current	83,804	34,033
	87,807	24,708
OTHER ITEMS		
Non-controlling interest - exchangeable shares (Note 10)	22,526	16,813
Loss (gain) related to equity method investment	(451)	754
	22,075	17,567
NET EARNINGS AND COMPREHENSIVE INCOME	229,189	164,286
Retained earnings, beginning of year	217,209	190,824
Distributions declared (Note 9)	(158,674)	(136,389)
Repurchase of units (Note 9)	(931)	-
Unit-settled distributions on vested unit based awards (Note 9)	(5,834)	(1,512)
RETAINED EARNINGS, END OF YEAR	$ 280,959	$ 217,209
NET EARNINGS PER TRUST UNIT (NOTE 12)		
Basic	$ 3.30	$ 2.48
Diluted	$ 3.23	$ 2.39
WEIGHTED AVERAGE TRUST UNITS OUTSTANDING (NOTE 12)		
Basic	69,548,183	66,122,423
Diluted	78,018,769	75,782,723

Consolidated Statements of Cash Flows
Years Ended December 31
(Thousands of Canadian dollars)

	2008	2007
OPERATING		
Net earnings	$ 229,189	$ 164,286
Adjustments:		
Depletion, depreciation and accretion	255,473	211,397
Change in unrealized gains and losses and accruals relating to derivative contracts (Note 13)	(13,102)	4,178
Unit based compensation	18,388	13,985
Loss (gain) related to equity method investment	(451)	754
Unrealized foreign exchange loss (gain)	52,579	(16,226)
Non-controlling interest - exchangeable shares	22,526	16,813
Change in unrealized gains and losses and accruals included in other expense or income relating to investments	5,361	49
Future income taxes	4,003	(9,325)
	573,966	385,911
Asset retirement costs incurred (Note 6)	(10,200)	(4,056)
Changes in non-cash operating working capital (Note 14)	96,369	(31,965)
Cash flows from operating activities	660,135	349,890
INVESTING		
Drilling and development of petroleum and natural gas properties	(186,836)	(175,639)
Acquisition of petroleum and natural gas properties (Note 4)	(46,466)	(121,294)
Corporate acquisition, net of cash acquired	(1,764)	-
Purchase of short-term investments	(9,491)	-
Long-term investment (Note 4)	(627)	(32,193)
Contributions to reclamation fund	(10,378)	-
Changes in non-cash investing working capital (Note 14)	(179)	(4,512)
Cash flows used in investing activities	(255,741)	(333,638)
FINANCING		
Increase (decrease) in long-term debt	(258,836)	99,053
Issue of trust units for cash	3,740	7,045
Issue of trust units pursuant to the distribution reinvestment plan	18,453	35,992
Cash distributions	(158,128)	(134,595)
Repurchase of units	(1,213)	-
Cash flows from (used in) financing activities	(395,984)	7,495
Foreign exchange gain (loss) on cash held in foreign currencies	10,953	(2,829)
Net change in cash and cash equivalents	19,363	20,918
Cash and cash equivalents, beginning of year	47,868	26,950
Cash and cash equivalents, end of year	$ 67,231	$ 47,868
Supplementary information - cash payments		
Interest paid	$ 14,905	$ 26,071
Income taxes paid	$ 27,699	$ 45,934

1. BASIS OF PRESENTATION

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation
The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Trust and its subsidiaries, all of which are wholly owned, on a consolidated basis. Inter-company account balances and transactions are eliminated upon consolidation.

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

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

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

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

A significant portion of the exploration, development and production activities of the Trust are conducted jointly with others and, accordingly, the consolidated financial statements reflect only the Trust’s proportionate interest in such activities.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Cash and Cash Equivalents
Cash and cash equivalents include monies on deposit and guaranteed investments that have an original maturity date of not more than 90 days.

Short-Term Investments
Short-term investments are comprised of guaranteed investment certificates with an original maturity date of greater than 90 days.

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

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

Long-Term Investments
Investments in which the Trust has significant influence are accounted for using the equity basis of accounting whereby the carrying value of the investment is increased or decreased for the Trust's percentage of net earnings or loss and reduced by dividends paid to the Trust. In 2008 and 2007 only the Trust's investment in Verenex Energy Inc. ("Verenex") was subject to the equity basis of accounting.

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

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

Revenue Recognition
Revenues associated with the sale of crude oil, natural gas and natural gas liquids are recorded when title passes to the customer. For Canadian natural gas production, legal title transfer occurs at the intersection of major pipelines (referred to as the "Hub") whereas the majority of Vermilion's Canadian oil production is sold at the well head. In Australia, oil is sold at the Wandoo B Platform, in the Netherlands natural gas is sold at the plant gate and in France oil is sold when delivered to the pipeline or when delivered to the refinery via tanker.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Financial Instruments

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

Financial Instruments

Cash and cash equivalents and short-term investments are classified as held for trading and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. A gain or loss arising from a change in the fair value is recognized in net earnings in the current period.

Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequently measured at amortized cost. The carrying value approximates the fair value due to the short-term nature of these instruments.

Accounts payable and accrued liabilities, distributions payable to unitholders and long-term debt have been classified as other financial liabilities and are initially recognized at fair value. The carrying value approximates the fair value due to the short-term nature of these instruments. Transaction costs and discounts are now added to the fair value of long-term debt on initial recognition.

All derivative, debt and equity security investments not subject to consolidation or equity method accounting have been classified as held for trading and are measured at fair value. Accordingly, gains and losses are reflected in net income in the period in which they arise. Gains and losses associated with the Trust's investments in debt and equity securities are included in other income in the consolidated statement of earnings.

The fair values of derivative instruments, debt securities and equity securities are determined by reference to published prices in active markets.

Unit Compensation

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

Upon vesting or exercise, the amount previously recognized in contributed surplus together with any consideration paid is recorded as an increase in unitholders' capital. The Trust has not incorporated an estimated forfeiture rate for awards that will not vest, rather, the Trust accounts for forfeitures as they occur.

Per-unit Amounts

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation
The financial position and results of foreign subsidiaries, all of which are considered to be integrated, are translated on the following basis:

- Monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates;
- Non-monetary assets, liabilities and related depreciation and depletion expense are translated at historical rates; and
- Sales, other revenues, royalties and all other expenses are translated at an appropriately weighted average exchange rate.

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

Income Taxes
Future income taxes are calculated using the liability method whereby income tax liabilities and assets are recognized for the estimated tax consequences attributable to temporary differences between the amounts reported in the consolidated financial statements of the Trust and their respective tax bases using substantively enacted income tax rates in the respective jurisdictions that will be in effect when the differences are expected to reverse. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period in which the related legislation is substantively enacted.

The Trust is a taxable entity under the Income Tax Act (Canada) and currently is only taxable on income that is not distributed to the unitholders. In 2007, the Government of Canada passed legislation that effectively imposes a tax on distributions made by entities such as the Trust beginning in 2011. In 2006 and prior years, as the Trust allocated all of its Canadian taxable income to the unitholders in accordance with the Trust Indenture and met the requirements of the Income Tax Act (Canada) applicable to it, a provision for Canadian income tax expense was only recognized in the Canadian subsidiaries of the Trust. As a result of this new legislation, future income taxes related to temporary differences arising in the Trust which will reverse after 2010 are recognized in earnings.

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

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

3. NEW ACCOUNTING POLICIES

Financial Instruments
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 20 and 21)

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

4. INVESTMENTS AND ACQUISITIONS

a) Verenex

During the year ended December 31, 2008, the Trust purchased 72,800 shares of Verenex for cash consideration of $0.6 million (2007 - 2.3 million shares purchased for cash consideration of $32.2 million). After reflecting these shares Vermilion owns 18.8 million shares representing 42.4% of the outstanding shares of Verenex.

b) Canada Acquisition

On January 31, 2008, the Trust completed a Canadian 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)
Total consideration	$ 44,126

During the year ended December 31, 2008 the Trust acquired $2.3 million of other petroleum and natural gas properties.

c) Australia Acquisition

On June 20, 2007, the Trust acquired the remaining 40% interest in the Wandoo field in offshore Australia for cash consideration of $117.9 million. The purchase price allocation was determined as follows:

Capital assets	$ 138,596
Asset retirement obligation	(12,405)
Working capital	(8,311)
Total consideration	$ 117,880

During the year ended December 31, 2007 the Trust acquired $3.4 million of other petroleum and natural gas properties.

5. CAPITAL ASSETS

2008	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 2,502,539	$ 1,098,127	$ 1,404,412
Furniture and equipment	11,561	8,344	3,217
	$ 2,514,100	$ 1,106,471	$ 1,407,629

2007	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 2,186,091	$ 858,180	$ 1,327,911
Furniture and equipment	10,835	7,286	3,549
	$ 2,196,926	$ 865,466	$ 1,331,460

As at December 31, 2008 and 2007 the Trust did not exclude any costs for undeveloped properties from the depletion and depreciation calculation. During the year, the Trust capitalized $4.4 million (2007 - $2.1 million) of overhead costs related to exploration and development activities.

The Trust performed ceiling tests at December 31, 2008 and 2007 to assess whether the carrying value of petroleum and natural gas properties and equipment is recoverable. Based on the calculations, the undiscounted future cash flows from the Trust's proved reserves exceeded the carrying values of the Trust's petroleum and natural gas properties and equipment at December 31, 2008 and 2007 and therefore the carrying values are considered recoverable.

5. CAPITAL ASSETS (Continued)

The benchmark prices used in the December 31, 2008 calculations are as follows:

CDN$/BOE	Canada	France	Netherlands	Australia
2009	$51.43	$60.15	$58.23	$68.48
2010	$56.41	$69.56	$59.01	$78.82
2011	$59.21	$73.68	$53.38	$83.43
2012	$62.94	$80.19	$52.10	$90.81
2013	$65.37	$84.55	$54.99	$95.80
Average increase thereafter	2.0%	2.0%	2.0%	2.0%

6. ASSET RETIREMENT OBLIGATIONS AND RECLAMATION FUND

The asset retirement obligations were 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 $265.1 million as at December 31, 2008 (2007 - $163.4 million) based on a total undiscounted future liability after inflation adjustment of $948.2 million (2007 - $579.4 million). These payments are expected to be made over the next 47 years with the majority of the costs being incurred between 2023 until 2045. The Trust used a credit adjusted risk free rate of 8% and inflation rates between 1.9% and 2.8% to calculate the present value of the asset retirement obligations.

The following table reconciles the change in the Trust's asset retirement obligations:

	2008	2007
Carrying amount, beginning of period	$ 163,374	$ 127,494
Increase in liabilities in the period	2,487	12,936
Disposition of liabilities in the period	(10,200)	(4,056)
Change in estimate	66,576	27,240
Accretion expense	14,468	10,067
Foreign exchange	28,396	(10,307)
Carrying amount, end of period	$ 265,101	$ 163,374

During the years ended December 31, 2008 and 2007, the Trust completed reviews of its estimates of the expected costs to reclaim the net interest in its wells and facilities. As a result of significantly higher Canadian reclamation costs which have been observed by the industry as a whole, Vermilion adjusted its asset retirement obligations to reflect these increased estimated future costs.

The Trust has set aside funds for the future payment of its estimated asset retirement obligations. In 2008, the Trust contributed $10.4 million to the reclamation fund (2007 - $nil).

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

	2008	2007
Cash and short term investments, at fair value	$ 21,700	$ 10,838
Equity and debt securities, at fair value	41,699	47,090
	$ 63,399	$ 57,928

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

7. LONG-TERM DEBT

As at December 31, 2008, the Trust had an unsecured, covenant-based credit facility allowing for maximum borrowings of $675 million. The revolving period under the term loan 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.

8. INCOME TAXES

The net future income tax liability at December 31, 2008 and 2007 is comprised of the following:

	2008	2007
Future income tax liabilities:		
Capital assets	$ (264,189)	$ (232,283)
Derivative contracts	(4,672)	(1,086)
Partnership income deferral	(18,120)	(7,240)
Asset retirement obligation	(4,630)	(5,445)
Other	(3,678)	-
Unrealized foreign exchange	(193)	-
Future income tax assets:		
Non-capital losses	49,491	38,909
Basis difference of investments	62	61
Share issue costs	130	129
Other	-	392
Unrealized foreign exchange	-	861
Net future income tax (liability)	$ (245,799)	$ (205,702)

The provision for income tax differs from the amount that would have been expected if the reported earnings had been subject only to the statutory Canadian income tax rate of 29.50% (2007 – 32.12%), as follows:

	2008	2007
Earnings before income taxes and non-controlling interest	$ 339,522	$ 205,807
Canadian corporate tax rate	29.50%	32.12%
Expected tax expense	100,159	66,105
Increase (decrease) in taxes resulting from:		
Income attributable to the unitholders	(46,809)	(43,808)
Non-deductible Crown payments	-	123
Foreign tax rate differentials*	2,735	1,528
Statutory rate changes	-	70
Unit compensation expense	5,425	4,492
Amended returns and pool estimate variances	1,722	8,830
Foreign exchange	12,525	(8,018)
Other	6,226	(703)
One-time tax benefit associated with offshore drilling program	-	(8,929)
Adjustment to provisions for tax positions taken	5,824	5,213
Non-taxable portion of capital gains	-	(195)
Provision for income taxes	$ 87,807	$ 24,708

* The corporate tax rate in France is 34.4%, 43.15% in the Netherlands and 30% in Australia

In 2007, the Government of Canada passed legislation that effectively imposes a tax on distributions made by entities such as the Trust beginning in 2011. As a result of this legislation, future income taxes related to temporary differences arising in the Trust, which will reverse after 2010, are recognized in earnings. The related impact on the Trust's consolidated future income tax provision and future income tax liability in 2007 related to this legislation was not material.

9. UNITHOLDERS' CAPITAL AND CONTRIBUTED SURPLUS

The Trust is authorized to issue an unlimited number of units of the Trust.

	Number of Units	Amount
Trust Units		
Unlimited number of trust units authorized to be issued		
Balance as at December 31, 2006	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
Balance as at December 31, 2007	67,335,427	380,941
Distribution reinvestment plan	521,839	18,453
Issued on conversion of exchangeable shares	600,697	17,766
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	-	17,304
Trust units issued for bonus plan	18,555	597
Unit-settled distributions on vested unit based awards	150,908	5,834
Unit buyback	(45,600)	(282)
Balance as at December 31, 2008	70,212,769	$ 444,353

	2008	2007
Contributed Surplus		
Opening balance	$ 29,211	$ 30,513
Unit compensation expense (excluding bonus plan)	17,791	13,290
Transfer to unitholders' capital for unit based awards	(17,304)	(14,592)
Ending balance	$ 29,698	$ 29,211

In May 2008, Vermilion suspended its distribution reinvestment plan as it was generating cash flow that was in excess of the level required to sustain the Trust's business model.

In October 2008, the Trust acquired and then cancelled 45,600 of its own units pursuant to a normal course issuer bid. The cost to acquire these units was $1.2 million and this transaction resulted in a decrease to unitholders' capital and retained earnings of $0.3 million and $0.9 million respectively.

Cash distributions declared to unitholders for the year ended December 31, 2008 were $158.7 million (2007 - $136.4 million). Distributions are determined by the Board of Directors in accordance with the Trust Indenture and are paid monthly.

10. NON-CONTROLLING INTEREST – EXCHANGEABLE SHARES

Upon conversion to a Trust, 6.0 million exchangeable shares of 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 will have been 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.

10. NON-CONTROLLING INTEREST – EXCHANGEABLE SHARES (Continued)

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

The following table summarizes the change in the outstanding exchangeable share balance:

	2008	2007
Exchangeable Shares		
Opening number of exchangeable shares	4,457,473	4,458,919
Exchanged for trust units	(371,868)	(1,446)
Ending balance	4,085,605	4,457,473
Ending exchange ratio	1.66196	1.55595
Trust units issuable upon conversion	6,790,112	6,935,605

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

	2008	2007
Non-controlling interest, beginning of year	$ 68,576	$ 51,780
Reduction of book value for conversion to trust units	(6,579)	(17)
Current period net earnings attributable to non-controlling interest	22,526	16,813
Non-controlling interest, end of year	$ 84,523	$ 68,576

11. UNIT COMPENSATION PLANS

Unit Rights Incentive Plan

The Trust has a unit rights incentive plan that allows the Trust to issue rights to acquire trust units to directors, officers and employees. No future rights are expected to be issued as the unit rights incentive plan was replaced with a Trust Unit Award Plan in 2005. The existing rights plan will be in place until all issued and outstanding rights are exercised or cancelled.

Under the plan, the Trust is authorized to issue up to 6.0 million unit rights; however, the number of trust units reserved for issuance upon exercise of the rights shall not at any time exceed 10% of the aggregate number of issued and outstanding trust units of the Trust. Unit right exercise prices were equal to the market price for the trust units on the date the unit rights were issued. Under certain conditions, the exercise price per unit may be adjusted by deducting from the grant price the aggregate of all distributions, on a per-unit basis, made by the Trust after the grant date. Rights granted under the plan vest over a three-year period and expire five years after the grant date.

The Trust used the Black-Scholes option-pricing model to calculate the estimated fair value of the outstanding rights. For unit rights issued in 2005, the following assumptions were used to arrive at the estimate of fair value:

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

The dividend yield is offset by the reducing strike price feature of the plan resulting in the use of a zero dividend yield in the option-pricing model. During the year no compensation expense has been recorded (2007 - $1.1 million) related to the Unit Rights Incentive Plan as all awards are fully vested.

11. UNIT COMPENSATION PLANS (Continued)

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

	2008		2007	
	Number of Unit Rights	Grant Date Weighted Average Exercise Price	Number of Unit Rights	Grant Date Weighted Average Exercise Price
Opening Balance	1,148,616	$ 14.55	2,244,258	$ 14.12
Cancelled	-		(3,900)	21.55
Exercised	(808,766)	$ 12.93	(1,091,742)	13.63
Closing balance	339,850	$ 18.40	1,148,616	$ 14.55

A summary of the plan as at December 31, 2008 is as follows:

Range of Exercise Price at Grant Date	Adjusted Exercise Price	Number of Rights Outstanding and Exercisable	Remaining Contractual Life of Right (Years)
$15.01 - $19.56	$4.55 - $9.10	339,850	0.63

Trust Unit Award Incentive Plan

In 2005, the Board of Directors established the Trust Unit Award Incentive Plan governing the issuance of unvested units of the Trust to directors, officers, employees and consultants of the Trust and its Affiliates.

Upon vesting, the grantee receives unrestricted units of the Trust, adjusted for cumulative distributions during the vesting period. The number of units issued upon vesting is dependent upon the performance of the Trust compared to its peers based on a performance factor that may range from zero to two times the number of awards originally granted. Original awards to new employees vest in equal tranches over three years and subsequent grants vest after three years.

The fair value of awards is estimated at the date of grant and is recognized over the vesting period.

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

	Number of Awards
Balance December 31, 2007	1,102,495
Granted	533,493
Vested	(407,113)
Cancelled	(20,620)
Balance December 31, 2008	1,208,255

Compensation expense of $17.8 million was recorded during the year ended December 31, 2008 (2007 - $12.1 million) related to the Trust Unit Award Incentive Plan.

Phantom Award Incentive Plan

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

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

Compensation expense of $0.9 million has been recorded as general and administration expense during the year ended December 31, 2008 (2007 - $2.0 million).

12. PER-UNIT AMOUNTS

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

	2008	2007
Net earnings	$ 229,189	$ 164,286
Non-controlling interest – exchangeable shares	22,526	16,813
Net earnings for diluted net earnings per trust unit calculation	$ 251,715	$ 181,099
Basic weighted average trust units outstanding	69,548,183	66,122,423
Dilutive impact of trust units issuable on conversion of exchangeable shares	7,108,202	6,935,786
Dilutive impact of unit rights incentive and trust unit award plans	1,362,384	2,724,514
Diluted weighted average trust units outstanding	78,018,769	75,782,723

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.

13. 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.

Risk Management: Oil	Funded Cost	bbls/d	US$/bbl
Collar - BRENT			
2009	US$1.00/bbl	500	$100.50 - $200.00
Call Spread - BRENT			
2009 - 2011	US$5.73/bbl	700	$ 65.00 - $ 85.00

The fair values of derivative instruments are recorded on the consolidated balance sheets with the associated unrealized gain or loss recorded in net earnings. The estimated fair value of all derivative financial instruments is based on quoted market prices or, in their absence, third party market indications and forecasts.

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

	2008	2007
Fair value of contracts, beginning of year	$ 2,102	$ 6,280
Opening unrealized loss (gain) on contracts settled during the year	7,414	(1,624)
Realized loss on contracts settled during the year	(10,625)	(2,835)
Unrealized gain (loss) during the period on contracts outstanding at the end of the year	5,688	(2,554)
Net payment to counterparties under contract settlements during the year	10,625	2,835
Fair value of contracts, end of year	15,204	2,102
Comprised of:		
Current derivative asset	11,638	37
Current derivative liability	-	(7,450)
Non-current derivative asset	3,566	9,515
Fair value of contracts, end of year	$ 15,204	$ 2,102

13. DERIVATIVE INSTRUMENTS (Continued)

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

	2008	2007
Realized loss on contracts settled during the year	$ 10,625	$ 2,835
Opening unrealized gain (loss) on contracts settled during the year	(7,414)	1,624
Unrealized (gain) loss during the period on contracts outstanding at the end of the year	(5,688)	2,554
Loss (gain) on derivative instruments for the year	$ (2,477)	$ 7,013

Pursuant to a 2006 acquisition under which the vendor participates in a portion of the net price received by Vermilion from 2009 to 2011 inclusive, the Trust entered into a derivative transaction to economically offset a portion of the related potential future payments.

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

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

During the normal course of business, the Trust enters into fixed and collared 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 sales exemption.

14. CASH FLOW INFORMATION

The following details the changes in non-cash working capital:

	2008	2007
Accounts receivable	$ (3,901)	$ 3,972
Crude oil inventory	(1,134)	(2,863)
Prepaid expenses and other	(4,182)	1,606
Accounts payable and accrued liabilities and income taxes payable	106,323	(37,943)
Foreign exchange	(916)	(1,249)
Changes in non-cash working capital	$ 96,190	$ (36,477)
Changes in non-cash operating working capital	$ 96,369	$ (31,965)
Changes in non-cash investing working capital	(179)	(4,512)
Changes in non-cash working capital	$ 96,190	$ (36,477)

15. SEGMENTED INFORMATION

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

	2008	2007
Petroleum and natural gas revenue		
Canada	$ 307,793	$ 225,501
France	318,320	240,547
Netherlands	114,656	77,367
Australia	261,136	163,919
	$ 1,001,905	$ 707,334
Net earnings		
Canada	$ 62,905	$ 9,920
France	53,857	84,712
Netherlands	31,132	16,286
Australia	81,295	53,368
	$ 229,189	$ 164,286
Capital expenditures		
Canada	$ 103,725	$ 69,713
France	53,905	73,504
Netherlands	13,019	22,275
Australia	62,653	131,441
	$ 233,302	$ 296,933
Total assets		
Canada	$ 779,634	$ 662,904
France	587,979	604,090
Netherlands	136,403	150,533
Australia	294,343	250,596
	$ 1,798,359	$ 1,668,123

16. LONG-TERM INVESTMENTS

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

	2008	2007
Portfolio investments, at fair value	$ 4,579	$ 5,032
Investment in Verenex, equity method (fair value - $128.5 million, 2007 - $158.8 - million)	59,173	58,096
	$ 63,752	$ 63,128

17. RELATED PARTY TRANSACTIONS

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

18. COMMITMENTS

The Trust has the following future commitments associated with its operating leases as at December 31, 2008:

	2009	2010	2011	2012	2013	Thereafter	Total
Payments by Period:	$4,063	$3,181	$3,112	$3,931	$3,931	$34,797	$53,015

In addition, the Trust has various other commitments associated with its business operations, none of which in management's view, are significant.

19. COMPONENTS OF CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows:

	2008	2007
Monies on deposit with banks	$ 67,231	$ 44,588
Guaranteed short-term investments	-	3,280
Total cash and cash equivalents	$ 67,231	$ 47,868

20. CAPITAL DISCLOSURES

In managing capital, the Trust reviews whether 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) is sufficient to pay for all capital expenditures, distributions, contributions to the reclamation fund and abandonment and reclamation expenditures. To the extent that the forecasted fund flows from operations is not expected to be sufficient to cover these expenditures, the Trust will evaluate its ability to finance any excess with debt or reduce some or all categories of expenditures to ensure that total expenditures do not exceed available funds.

As a part of the management of capital, the Trust monitors the ratio of net debt (a non-GAAP measure, which is defined as long-term debt as shown on the consolidated balance sheets plus working capital) to fund flows from operations.

The Trust typically strives to maintain a ratio of net debt to fund flows from operations near 1.0. In a commodity price environment where prices trend higher, the Trust may target a lower ratio and conversely, in a lower commodity price environment, the acceptable ratio may be higher. At times, the Trust will use its balance sheet to finance acquisitions and in these situations, the Trust is prepared to accept a higher ratio in the short term but will implement a plan to reduce the ratio to acceptable levels within a reasonable period of time, usually considered to be no more than 12 to 18 months. This plan could potentially include an increase in hedging activities, a reduction in capital spending and the utilization of excess fund flows from operations to reduce outstanding indebtedness.

The following table calculates the Trust's ratio of net debt to fund flows from operations:

	2008	2007
Long-term debt	$ 197,651	$ 452,490
Current liabilities	250,275	150,620
Current assets	(240,173)	(186,252)
Net debt [1]	$ 207,753	$ 416,858
Cash flows from operating activities	$ 660,135	$ 349,890
Changes in non-cash operating working capital	(96,369)	31,965
Asset retirement costs incurred	10,200	4,056
Fund flows from operations [2]	$ 573,966	$ 385,911
Ratio of net debt to fund flows from operations ([1] ÷ [2])	0.4	1.1

20. CAPITAL DISCLOSURES (Continued)

For the periods presented here, the ratio of net debt to fund flows from operations was between 0.4 and 1.1. The 2008 year end figure of 0.4 reflects the strong commodity price environment that prevailed for much of the year. Given the weakening of commodity prices through the end of 2008 and into early 2009, the Trust will target a net debt to fund flows from operations ratio of approximately 1.0 in accordance with its capital management strategy, exclusive of the impact of potential acquisitions.

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.

21. FINANCIAL INSTRUMENTS

The following table summarizes information relating to Vermilion's financial instruments as at December 31, 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:	
				December 31, 2008	December 31, 2007
Cash	Cash and cash equivalents	HFT-B	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	$ 67,231	$ 47,868
Short-term investments	Short-term investments	HFT-A	Gains and losses on foreign exchange are included In foreign exchange loss (gain)	$ 9,491	$ -
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	$ 123,794	$ 119,645
Derivative assets	Derivative instruments	HFT-B	Loss (gain) on derivative instruments	$ 15,204	$ 9,552
Derivative liabilities	Derivative instruments	HFT-B	Loss (gain) on derivative instruments	$ -	$ (7,450)
Reclamation fund investments	Reclamation fund	HFT-A	Other income or expense	$ 63,399	$ 57,928
Portfolio investments	Long-term investments [(1)]	HFT-A	Other income or expense	$ 4,579	$ 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)	$ (192,652)	$ (141,652)
Long-term debt	Long-term debt	OTH	Interest	$ (197,651)	$ (452,490)

(1) See note 16 for a reconciliation of the long-term investments account

21. FINANCIAL INSTRUMENTS (Continued)

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.

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 and are adjusted for credit risk. 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. Cash held on behalf of the Trust by financial institutions is also subject to credit risk related to the credit profile of those institutions.

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 impact related to working capital is somewhat mitigated as a result of the offsetting effects of foreign exchange fluctuations on assets and liabilities. 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 December 31, 2008 the Trust held portfolio investments in equity securities with a fair value of $4.6 million. The fair value of these instruments is exposed to changes in the prices of the underlying equities.

21. FINANCIAL INSTRUMENTS (Continued)

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.

Vermilion does not consider there to be a present risk in relation to funds availability to the Trust under its committed borrowing facility.

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

Summarized Quantitative Data Associated with the Above Risks

Credit risk:
As at December 31, 2008 Vermilion's maximum exposure to receivable credit risk was $139.0 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. In addition, at December 31, 2008 Vermilion had $67.2 million in cash on deposit at banks. The Trust continues to review the options to mitigate its risk in relation to recent economic events.

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

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	$123,718	$63,805	$5,129	$197,651

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 year given changes in the relevant risk variables that the Trust considers were reasonably possible at December 31, 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.

21. FINANCIAL INSTRUMENTS (Continued)

Risk	Description of change in risk variable	Effect on net earnings before tax increase (decrease)
Currency risk – Euro to Canadian	Increase in strength of the Canadian dollar against the Euro by 10% over the relevant closing rates on December 31, 2008.	$ (3,527)
	Decrease in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on December 31, 2008.	$ 1,763
Currency risk – US$ to Canadian	Increase in strength of the Canadian dollar against the US$ by 10% over the relevant closing rates on December 31, 2008.	$ (5,584)
	Decrease in strength of the Canadian dollar against the US$ by 5% over the relevant closing rates on December 31, 2008.	$ 2,792
Currency risk – AUD$ to Canadian	Increase in strength of the Canadian dollar against the AUD$ by 10% over the relevant closing rates on December 31, 2008.	$ (1,234)
	Decrease in strength of the Canadian dollar against the AUD$ by 5% over the relevant closing rates on December 31, 2008.	$ 617
Commodity price risk	Increase in relevant oil reference price at December 31, 2008 by US$5.00/bbl within option pricing models used to determine the fair value of derivative positions.	$ 146
	Decrease in relevant oil reference price at December 31, 2008 by US$5.00/bbl within option pricing models used to determine the fair value of derivative positions.	$ (59)

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 year ended December 31, 2008.

22. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

In February 2008, the CICA issued Section 3064 – "Goodwill and Intangible Assets" to replace Sections 3062 – "Goodwill and Other Intangible Assets" and 3450 – "Research and Development Costs". Section 3064 incorporates guidance addressing when an internally developed intangible asset meets the criteria for recognition as an asset. This Section is effective for fiscal years beginning on or after October 1, 2008. The Trust does not anticipate that the adoption of this standard will have a material impact on its results of operations and financial position.

In January 2009, the CICA issued Section 1582 – "Business Combinations", Section 1601– "Consolidated Financial Statements" and Section 1602 – "Non-controlling Interests". These new sections are effective for years beginning on or after January 1, 2011 with earlier adoption permitted. Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners, members or participants. Finally, acquisition costs are not part of the consideration and, with the exception of trust unit issue costs, acquisition-related costs are to be expensed when incurred. Vermilion is current assessing the potential impact and whether or not it will elect to adopt these standards in advance of the transition to IFRS.

23. SUBSEQUENT EVENT

On February 24, 2008 Verenex entered into an agreement under which a company has 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 has agreed to tender its common shares in Verenex under the offer. Vermilion holds 18.8 million shares in Verenex and accordingly, the Trust's proceeds from a successful transaction would be approximately $187.6 million.

The completion of this transaction is subject to a number of conditions including consent from the Libyan National Oil Corporation and valid acceptance of the offer by at least 66.7% of Verenex's shareholders as well as other governmental and regulatory approvals.

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

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

TRUST INFORMATION

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 [2, 4, 5]
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

ANNUAL AND SPECIAL MEETING
May 8, 2009 at 10:00 a.m.
The Ballroom
Metropolitan Centre
333 – 4th Avenue S.W.
Calgary, Alberta

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

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

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General Manager
Vermilion Oil & Gas Netherlands B.V.

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

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Royal Bank of Canada
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Alberta Treasury Branches
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Fortis Capital (Canada) Ltd.
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Société Générale (Canada Branch)
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Citibank Canada
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EVALUATION ENGINEERS
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LEGAL COUNSEL
Macleod Dixon LLP
Calgary, Alberta

TRANSFER AGENT
Computershare Trust Company of Canada

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

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