VERMILION
ENERGY

ANNUAL REPORT

2009

FINANCIAL STATEMENTS

AND

MANAGEMENT'S DISCUSSION AND ANALYSIS

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ANNUAL GENERAL MEETING

May 7, 2010 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
CO_2	carbon dioxide
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

Certain statements included or incorporated by reference in this document may constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward looking statements or information in this document may include, but are not limited to:

- capital expenditures;
- business strategy and objectives;
- reserve quantities and the discounted present value of future net cash flows from such reserves;
- net revenue;
- future production levels;
- exploration plans;
- development plans;
- acquisition and disposition plans and the timing thereof;
- operating and other costs;
- royalty rates;
- Vermilion's additional future payment in connection with the Corrib acquisition;
- the timing of first commercial gas from the Corrib field;
- the decision of the Corrib joint venture consortium to drill an exploratory well at the Corrib field and the timing thereof; and
- estimate of Vermilion's share of the expected gas rates from the Corrib field.

Such forward-looking statements or information are based on a number of assumptions which may prove to be incorrect. In addition to any other assumptions identified in this document, assumptions have been made regarding, among other things:

- the ability of the Trust to obtain equipment, services and supplies in a timely manner to carry out its activities in Canada and internationally;
- the ability of the Trust to market oil and natural gas successfully to current and new customers;
- the timing and costs of pipeline and storage facility construction and expansion and the ability to secure adequate product transportation;
- the timely receipt of required regulatory approvals;
- the ability of the Trust to obtain financing on acceptable terms;
- currency, exchange and interest rates; and
- future oil and gas prices.

Although the Trust believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because the Trust can give no assurance that such expectations will prove to be correct. Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by the Trust and described in the forward looking statements or information. These risks and uncertainties include but are not limited to:

- the ability of management to execute its business plan;
- the risks of the oil and gas industry both domestically and internationally, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;
- risks and uncertainties involving geology of oil and gas deposits;
- risks inherent in the Trust's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- the Trust's ability to enter into or renew leases;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;

DISCLAIMER (Continued)

- the ability of the Trust to add production and reserves through development and exploration activities;
- general economic and business conditions;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments;
- risks associated with existing and potential future law suits and regulatory actions against the Trust; and
- other risks and uncertainties described elsewhere in this document or in the Trust's other filings with Canadian securities authorities.

The forward-looking statements or information contained in this document are made as of the date hereof and the Trust undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws.

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:

A year that began with trepidation and uncertainty in both the financial and commodity markets ended with Vermilion delivering one of its strongest market performances of the past few years. Vermilion's total return to unitholders in 2009 was 37.8%, providing investors with a top quartile five-year compounded average rate of return of 16.5%.

During the course of 2009, commodity prices began the recovery to levels we believe are more sustainable over the long-term. Nonetheless, the sharp year-over-year decline in average commodity prices negatively impacted fund flows from operations. In response to the lower commodity prices experienced early in the year, Vermilion initiated a profitability enhancement program targeting material reductions in operating and administrative costs. By controlling costs and making modest reductions to capital spending plans, Vermilion was able to comfortably maintain a stable level of distributions to unitholders while most of its peers were forced to sharply reduce monthly payments.

Development capital expenditures in 2009 were focused primarily on a highly successful drilling program in the Netherlands, a modest tight gas and light oil drilling program in Canada and workover and recompletion programs in France. Despite an almost 20% reduction in the level of development capital spending, Vermilion experienced only a modest decline in overall average production in 2009. At the same time, Vermilion's reserve base continued to grow with the addition of 25.7 mmboe of proved plus probable reserves including 7.2 mmboe from development activities and 18.5 mmboe through acquisitions. Net of production, Vermilion increased its proved plus probable reserves by 12% in 2009.

Vermilion's strong financial position going into 2009 was a key factor enabling the acquisition of an 18.5% interest in the Corrib natural gas project ("Corrib") located offshore northwest Ireland. Uncertain credit and equity markets provided Vermilion with the opportunity to creatively participate in this significant European natural gas project that otherwise may not have been attainable. Corrib is expected to increase Vermilion's production by approximately 9,000 boe/d and could add 40% to Vermilion's fund flows from operations, based on current forward pricing curves for UK natural gas. The development of the Corrib Gas Field is already more than 85% complete. The key remaining element of the project is the construction of a 9 kilometer onshore pipeline. Our current expectation with regard to the timing of first gas production from Corrib is late 2012.

In the Netherlands, Vermilion launched a successful drilling program targeting both development and exploration locations on existing acreage. This program yielded 100% success with combined expected production rates of over 4,000 boe/d, net to Vermilion, from four wells. The tie-in of these wells will be staged over the next 18 months adding estimated production of 2,000 boe/d in 2010, with the remainder on production in 2011. Vermilion has identified over 30 gross prospects on 290,000 net acres of land and will look to develop a rolling inventory of wells in the permitting and drilling stages, with the target of drilling four to six wells per year starting in 2011.

In Canada, Vermilion focused its attention on the rapidly emerging resource play potential that has resulted from advances in completion technologies. Vermilion's extensive land holdings in the Drayton Valley region contain a number of 'resource' play opportunities including liquids-rich tight gas pools and light oil pools. Vermilion continues to grow its conventional resource plays in the Drayton Valley region which, combined with additional mapping and core data analysis, has significantly expanded our inventory of Cardium opportunities to more than 300 net targets on over 100 net sections of land and the inventory of liquids-rich tight gas opportunities to approximately 120 net well locations. Vermilion currently estimates the expected ultimate resource potential at approximately 200,000 bbls per Cardium well and between 1.5 and 2.9 bcf per gas well depending on the target formation. Vermilion intends to drill up to 16 horizontal Cardium wells, three horizontal gas wells and an additional 10 vertical tight gas wells in 2010. We believe these programs will begin to provide a strong source of organic growth for Vermilion. Workovers and recompletions of multiple-zone and tight gas reservoirs will also remain a mainstay of the Canadian capital program.

In France, Vermilion maintained a steady workover and completion program which, combined with two new oil wells in the Champotran field, held production declines to less than 3.5% for the year. Vermilion continues to review further opportunities for waterflood optimization of its major reservoirs in France and the implementation of a CO_2 based enhanced oil recovery pilot at Chaunoy. Vermilion will be drilling one well at Les Mimosas, which is currently a single well pool discovered by Esso in 2004. This new well is designed as a pressure support (water-injection) well for the reservoir, but may be initially produced as an oil well depending on the reservoir pressure encountered by the well. Vermilion is also in the preliminary stages of evaluating resource play potential in France, including the Lias Shale oil play in the Paris Basin and tight gas opportunities in the Aquitaine Basin.

In Australia, Vermilion benefited from strong production from the two wells completed in December 2008. These wells produced at initial rates of 1,000 boe/d per well and provided a 15% increase to Australian production volumes compared with 2008. Production from the Wandoo field in 2009 of 7,812 boe/d was essentially at the same level as when the field was initially acquired in 2005. In Australia, Vermilion plans to drill three additional wells in the Wandoo Field in 2010. These wells are anticipated to add combined production in excess of 1,500 boe/d.

Verenex Energy Inc. ("Verenex"), in which Vermilion held a 42.4% equity interest, was successfully sold to the Libyan Investment Authority for $7.29 per share, generating net cash proceeds of $136.5 million to Vermilion. These proceeds, combined with the proceeds from a $250 million equity offering, leave Vermilion in a strong financial position to begin 2010. Net debt at December 31, 2009 totalled $120.4 million, representing less than 0.4 times annual fund flows from operations.

OUTLOOK

Effective September 1, 2010, Vermilion is planning to convert back to a corporate structure and intends to maintain its current business strategy following conversion. Due to the international nature of its assets, Vermilion has historically benefited from the trust structure to a lesser degree than our peers. As such, investors should not view the conversion as a departure for Vermilion, but as a beneficial levelling of the playing field amongst our peers and a continuance of the strategy that has delivered outstanding performance for investors for the past seven years.

Vermilion's Board of Directors has approved an increase in the capital spending program to $350 million for 2010 that includes approximately $100 million of expenditures related to the development of western Canadian resource plays and related infrastructure.

Given the increased level of capital spending and the recent success of Vermilion's Netherlands drilling program, Vermilion currently expects average production volumes for 2010 to approach the high end of initial guidance at 31,000 boe/d. We anticipate production will exit 2010 at more than 33,000 boe/d and project further growth in 2011. This additional growth is due to the development of Canadian resource plays as well as production tie-ins in the Netherlands and the anticipated impact of the upcoming Australian drilling program.

Over the longer term, Vermilion targets the delivery of steady reserve and production growth on an annual basis which, combined with an attractive distribution (dividend post September 1, 2010), should provide investors with double digit total returns. Vermilion's portfolio of opportunities is continually expanding and includes significant resource plays in western Canada, sizeable conventional gas targets in the Netherlands, further reservoir development offshore Australia, substantial enhanced oil recovery potential in France and a major natural gas development project in Ireland. Management believes that these assets can provide meaningful and steady growth for the foreseeable future.

Vermilion is pleased to announce the appointment of Tim Marchant to the Board of Directors. Tim is a thirty-year veteran of the oil business and has served in a variety of senior executive positions with BP and Amoco in a number of international arenas. Tim has a Ph.D. in geology and has led numerous exploration and development initiatives in Canada and internationally. Combined with a strong background in business development and new ventures, Tim's skill set fits very well with Vermilion's strategic initiatives. Tim currently serves as an adjunct professor with the Haskayne School of Business at the University of Calgary. Vermilion is delighted to welcome Tim to the Board of Directors and looks forward to benefitting from his experience and guidance.

I would like to recognize and thank all of Vermilion's employees and Board of Directors for their enthusiastic support of Vermilion's ongoing pursuit of excellence. We would also like to express our appreciation to unitholders and acknowledge the trust they have placed in us to manage the business for the long-term.

("Lorenzo Donadeo")

Lorenzo Donadeo
President & Chief Executive Officer
March 2, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis (MD&A) dated March 15, 2010 of Vermilion's operating and financial results for the years ended December 31, 2009 and 2008. This discussion should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 2009 and 2008, together with accompanying notes.

A discussion of Vermilion's operating and financial results for the fourth quarter of 2009 is contained in Vermilion's press release dated March 3, 2010 filed on The System for Electronic Document Analysis and Retrieval (SEDAR - www.sedar.com).

The financial data contained within this MD&A has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP" or "Canadian GAAP") and are reported in Canadian dollars, unless otherwise stated.

NON-GAAP MEASURES

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

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

($000's)	**Years Ended December 31 2009**	**2008**
Cash flows from operating activities	**$ 230,316**	$ 660,135
Changes in non-cash operating working capital	**76,782**	(96,369)
Asset retirement costs incurred	**10,139**	10,200
Fund flows from operations	**$ 317,237**	$ 573,966

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

($000's)	**Years Ended December 31 2009**	**2008**
Acquisition of petroleum and natural gas properties from consolidated statements of cash flows	**$ 159,536**	$ 46,466
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)	**57,507**	-
Acquisitions, including acquired working capital deficiency	**$ 217,043**	$ 48,230

"Net debt" is the sum of long-term debt and working capital but excluding the amount due pursuant to acquisition as presented in the Trust's consolidated balance sheets 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		
($000's)		**2009**		**2008**
Long-term debt	**$**	**159,723**	$	197,651
Current liabilities		**217,563**		250,275
Current assets		**(256,886)**		(240,173)
Net debt	**$**	**120,400**	$	207,753

"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		
($000's)		**2009**		**2008**
Distributions declared	**$**	**166,385**	$	158,674
Issue of trust units pursuant to the DRIP		**-**		(18,453)
Net distributions	**$**	**166,385**	$	140,221

"Total net distributions, capital expenditures, reclamation fund contributions and asset retirement costs incurred" is calculated as 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		
($000's)		**2009**		**2008**
Distributions declared	**$**	**166,385**	$	158,674
Issue of trust units pursuant to the DRIP		**-**		(18,453)
Drilling and development of petroleum and natural gas properties		**194,666**		186,836
Contributions to reclamation fund		**-**		10,378
Asset retirement costs incurred		**10,139**		10,200
	$	**371,190**	$	347,635

"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	
	2009	**2008**
Trust units outstanding	**79,523,028**	70,212,769
Trust units issuable pursuant to exchangeable shares outstanding	**7,219,261**	6,790,112
Adjusted basic trust units outstanding	**86,742,289**	77,002,881
Potential trust units issuable pursuant to unit compensation plans	**1,497,422**	1,917,278
Diluted trust units outstanding	**88,239,711**	78,920,159

	As at December 31	
	2009	**2008**
Basic weighted average trust units outstanding	**72,405,606**	69,548,183
Trust units issuable pursuant to exchangeable shares outstanding	**7,279,431**	7,108,202
Adjusted basic weighted average trust units outstanding	**79,685,037**	76,656,385

HIGHLIGHTS

($000's except per unit amounts)	**2009**	**2008**	**2007**
Revenues	**$ 639,751**	$ 1,001,905	$ 707,334
Net earnings	**185,498**	229,189	164,286
Per unit, basic	**2.56**	3.30	2.48
Per unit, diluted	**2.53**	3.23	2.39
Fund flows from operations	**317,237**	573,966	385,911
Per unit, adjusted basic	**3.98**	7.49	5.28
Return on equity (%)	**20.7**	33.2	28.2
Total assets	**2,084,676**	1,798,359	1,668,123
WTI (US $/bbl)	**61.80**	99.65	72.34
AECO ($/mcf)	**3.95**	8.13	6.45
Realized price ($/boe)	**55.83**	83.61	61.86
Fund flows netback ($/boe)	**$ 27.69**	$ 47.91	$ 33.75

2009 Summary of Quarterly Results ($000's except per unit amounts)	**Q1**	**Q2**	**Q3**	**Q4**
Revenue	$ 146,236	$ 162,788	$ 150,183	$ 180,544
Net earnings	19,884	24,880	17,834	122,900
Per unit, basic	0.28	0.35	0.25	1.60
Per unit, diluted	$ 0.28	$ 0.35	$ 0.25	$ 1.59

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

VERMILION ENERGY TRUST OVERVIEW

Vermilion aims to provide superior rewards and stability to its stakeholders though the execution of a successful strategy based on quality assets and proven leadership.

Stability

From the Trust's inception in January 2003 through November 2007 Vermilion 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. During 2008 and 2009 Vermilion was one of only three conventional energy trusts that did not reduce its monthly distribution and this achievement was a result of the Trust's conservative fiscal practices. This element of financial stability is further demonstrated by the Trust's strong balance sheet which gives Vermilion significant financial flexibility to pursue opportunities as they arise.

Adherence to strong core values at all levels of the Trust has contributed to Vermilion's success. 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 has historically focused on the development and optimization of mature producing properties in Western Canada, Western Europe and Australia and in 2009 Vermilion expanded on this strategy through its acquisition of an 18.5% non-operated interest in the offshore Corrib gas field in Ireland. Vermilion has provided its unitholders with 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 acquisition properties that deliver strong cash netbacks and have an abundance of low risk opportunities. In executing its strategy, Vermilion has acquired quality assets in five different countries.

Canada

Vermilion has an interest in over 600 net wells in three core areas, all in Alberta. The properties include a significant light oil field at Utikuma, multiple level, and liquids-rich tight gas reservoirs and Cardium oil opportunities in the Drayton Valley region and a CBM and shallow gas development in Central Alberta. Vermilion controls approximately 271,856 net acres of developed land, 159,821 net acres of undeveloped land and operates significant oil and natural gas processing facilities with combined throughput of 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 certain reservoirs in the area. The Trust employs reservoir optimization techniques to improve recoveries from the Utikuma reservoir and will continue to manage the long-term development of its CBM 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 large 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. In February 2010, the Trust announced it had achieved 100% success from its recent four-well drilling program with combined estimated initial production volumes in excess of 4,000 boe/d net to Vermilion that will be brought on production over the next 18 months. Vermilion believes that there are numerous potential prospects in this region and has plans to continue drilling in the Netherlands in 2011.

Australia
Vermilion initially acquired a 60% interest in the Wandoo field located 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 has plans to drill additional wells in 2010.

Ireland
Vermilion acquired an 18.5% non-operated interest in the Corrib field located approximately 83 kilometres off the northwest coast of Ireland. Net production to Vermilion is initially anticipated at approximately 9,000 boe/d when the field is put on production. The Corrib asset will further enhance Vermilion's global asset base and is anticipated to deliver strong, accretive returns. The Corrib acquisition is consistent with Vermilion's focus on Western Europe and provides the Trust with another strong foothold in an attractive European energy market and a path of identifiable growth over the next few years.

Proven Leadership

The members of Vermilion's executive management team average more than 25 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 unitholders.

2009 REVIEW AND 2010 GUIDANCE

The following table summarizes the Trust's 2009 actual results as compared to guidance and the Trust's 2010 guidance:

($000's except production amounts)	Date	Capital Expenditures	Production (boe/d)
2009 Guidance	November 2008	$175,000 - $250,000	31,500 – 33,000
Updated	March 2, 2009	$120,000	30,000 – 31,000
Updated	August 6, 2009	$235,000	30,000 – 31,000
2009 Actual		$194,666	31,395
2010 Guidance	November 2009	$285,000 - $330,000	29,000 – 31,000
Updated	March 3, 2010	$350,000	31,000

Vermilion provided broad preliminary guidance for its expected 2009 development capital expenditure program and production forecast in November 2008. A sharp deterioration of commodity prices led to a significant reduction in both capital spending and production guidance, which were communicated to the market on March 2, 2009. Following the acquisition of the Corrib assets, Vermilion provided further revisions to its capital program on August 6, 2009, but left production guidance unchanged. The primary difference between the $235 million guidance figure and the $195 million actual capital expenditure at year end was due to the inclusion of some first half expenditures related to Corrib that were included in the acquisition cost rather than in development capital spending.

OPERATIONAL ACTIVITIES

Canada

In Canada, Vermilion participated in the drilling of 39 wells (25.8 net) during 2009, resulting in five gas wells (2.9 net), two oil wells (1.4 net), two abandoned wells (1.0 net) and 30 standing wells (20.6 net) awaiting further evaluation and tie-in. The total standing well count includes 27 CBM and shallow gas wells (18.6 net). The Canadian wells included one Vermilion operated horizontal multistage fracture completion of a tight gas well, a partner operated Cardium oil completion, and a partner operated tight gas completion. Vermilion is planning to significantly expand its domestic development program in 2010.

France

In France, Vermilion participated in the drilling of three wells (3.0 net) at Champotran in the Paris Basin resulting in one producing oil well, one standing well awaiting evaluation of uphole zones and one standing well that is being used to evaluate the Lias fractured shale potential. An active workover and recompletion program across Vermilion's properties in France was instrumental in holding production declines to minimal levels in 2009, despite the low drilling activity.

Netherlands

In the Netherlands, Vermilion drilled and completed four wells including two development wells (1.9 net) and two exploration wells (0.85 net). These wells are expected to effectively double Vermilion's production from the Netherlands over the next 18 months. Vermilion will work on production, pipeline and environmental permits for the De Hoeve and Vinkega wells and is applying for drilling permits for up to six additional wells in 2011.

Australia

Vermilion did not drill or workover any wells in Australia in 2009, but the strong performance of the two wells drilled in December 2008 provided a good incentive to extend the development drilling program, which will see three wells completed in the second half of 2010.

PRODUCTION

Average production in Canada during 2009 was 3,654 bbls/d of oil and NGLs and 47.9 mmcf/d of natural gas (11,629 boe/d) compared to 4,172 bbls/d of oil and NGLs and 51.2 mmcf/d of natural gas (12,696 boe/d) in 2008, representing a year-over-year decrease of 8.4%. Fourth quarter 2009 production averaged 11,021 boe/d, compared to 12,448 boe/d in the fourth quarter of 2008. In 2009, production volumes were also slightly reduced by a voluntary reduction of natural gas sales from September to December due to low natural gas prices. The full year impact on average production amounted to approximately 150 boe/d. Canadian production is expected to increase in 2010 with the acceleration of resource play development.

Production in France averaged 8,421 boe/d in 2009, 3.3% lower than average 2008 production of 8,710 boe/d. The decrease was largely attributable to the limited 2009 drilling program. Fourth quarter 2009 production of 8,407 boe/d was 2.6% lower than fourth quarter 2008 production of 8,630 boe/d. France production is expected to be decrease in 2010 due to limited planned drilling activity.

Production in the Netherlands averaged 3,533 boe/d in 2009, well below the 4,562 boe/d recorded in 2008. The decrease reflects the full year impact of production shut-ins at Harlingen and some short-term drilling-related shut-ins during the fourth quarter. Production in the fourth quarter 2009 averaged 3,464 boe/d compared with 4,043 boe/d during the same period in 2008. Netherlands production is expected to increase sharply in 2010 with further gains in 2011 as production from the successful 2009 drilling program is brought on stream.

Australia production averaged 7,812 boe/d in 2009, compared to 6,773 boe/d in 2008 as production from two wells drilled in December 2008 provided significant incremental volumes throughout the year. Production during the fourth quarter 2009 averaged 7,124 boe/d, compared to 7,117 boe/d during the same period in 2008. Australian production is expected to decline during the first half of 2010, and then should rebound towards the end of the year following completion of the three wells scheduled during the third quarter of 2010.

	Year Ended December 31, 2009			Year Ended December 31, 2008			Year Ended December 31, 2007		
	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	Oil & NGL's (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)	Oil & NGLs (bbls/d)	Natural Gas (mmcf/d)	Total (boe/d)
Canada	3,654	47.85	11,629	4,172	51.15	12,696	4,081	47.74	12,038
France	8,246	1.05	8,421	8,514	1.17	8,710	8,621	1.13	8,809
Netherlands	23	21.06	3,533	24	27.23	4,562	40	26.24	4,413
Australia [1]	7,812	-	7,812	6,773	-	6,773	6,065	-	6,065
Total	19,735	69.96	31,395	19,483	79.55	32,741	18,807	75.11	31,325

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

2009 Quarterly Production (boe/d)	Q1	Q2	Q3	Q4
Canada	12,008	12,288	11,212	11,021
France	8,395	8,628	8,257	8,407
Netherlands	3,936	3,391	3,351	3,464
Australia	8,612	7,931	7,598	7,124
Total	32,951	32,238	30,418	30,016

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

FINANCIAL REVIEW

During the year ended December 31, 2009, the Trust generated fund flows from operations of $317.2 million compared to $574.0 million in 2008. The year over year decrease in fund flows from operations of $256.7 million is largely the result of lower average commodity prices in 2009 versus 2008. The GAAP measure, cash flows from operating activities, similarly decreased year over year to $230.3 million for the year ended December 31, 2009 from $660.1 million for 2008.

During the year ended December 31, 2009, the price of WTI crude oil averaged US $61.80 per bbl (2008 – US $99.65). The AECO price for gas averaged $3.95 per mcf (2008 – $8.13 per mcf). On a year over year basis, the average prices for both oil and gas were significantly lower in 2009 than 2008.

Despite the decrease year over year in fund flows from operations, Vermilion has strengthened its financial position and at December 31, 2009, the Trust's net debt was $120.4 million which represents a decrease of 42.0% from the net debt of $207.8 million at December 31, 2008. The Trust's long-term debt has decreased to $159.7 million at December 31, 2009 from $197.7 million at December 31, 2008. At December 31, 2009, Vermilion's net debt represented 32.0% of its fourth quarter annualized fund flows from operations. The year over year decrease in net debt is a function of Vermilion's fourth quarter trust unit issuance and the sale of the Trust's investment in Verenex.

For the year ended December 31, 2009, total net distributions, capital expenditures, reclamation fund contributions and asset retirement costs incurred as a percentage of fund flows from operations was 117.0% versus 60.6% for the corresponding period in the prior year. The year over year increase in this ratio is a function of the lower fund flows from operations recorded in 2009 versus the same period in 2008 which is a result of lower average commodity prices, combined with the impact of the Corrib project where Vermilion has significant ongoing capital commitments to achieve first gas.

CAPITAL EXPENDITURES

On July 30, 2009, the Trust completed its acquisition of an 18.5% non-operated interest in the Corrib gas field located off the northwest coast of Ireland for cash consideration of $136.8 million. The Corrib acquisition cost includes Vermilion's share of capital expenditures from January 1, 2009 through the date of acquisition. Pursuant to the terms of the acquisition agreement, the Trust will make an additional future payment to the vendor, the amount of which will be between US $135 million and US $300 million depending on the date when first commercial gas is achieved. Management currently expects that first commercial gas will be achieved by the end of 2012.

Production from Corrib is expected to increase Vermilion's volumes by approximately 9,000 boe/d once the field reaches peak production. The project includes both offshore and onshore pipeline segments as well as a significant natural gas processing facility and it is in the latter stages of development.

The acquisition of Corrib plus property acquisitions totalling $15.1 million and the purchase of a $4.5 million gross overriding royalty acquired from Verenex exceeded 2008 acquisition spending which included a $44.1 million acquisition of producing properties in the Drayton Valley area.

Non-acquisition related capital spending has increased largely as a result of post-acquisition capital spending on the Corrib project. Pursuant to the acquisition agreement, Vermilion assumed its share of future capital expenditure obligations in order to reach first gas. These capital costs are primarily related to the completion of the facilities necessary to bring this gas on-stream.

The development of the Corrib gas field is already more than 85% complete. The key remaining element of the project is the construction of the onshore pipeline. Shell E&P Ireland Ltd. ("SEPIL") submitted an application to An Bord Pleanala ("ABP") for the 9 kilometre long section of onshore pipeline in February 2009. In November 2009, the ABP suggested a further amendment to the onshore pipeline route. In January 2010, SEPIL wrote to ABP and indicated that it had made good progress in responding positively to ABP's request for further information. SEPIL intends to respond to ABP by May 31, 2010. However, given the nature of ABP's suggested modifications to the onshore pipeline route, we do not currently expect first gas production from Corrib before late 2012. Originally it was anticipated that first gas production would have been reached by December 2011.

Capital Expenditures ($000's)	2009	2008	2007
Land	**$ 15,868**	$ 5,183	$ 3,484
Seismic	**1,847**	10,989	491
Drilling and completion	**55,989**	78,542	89,081
Production equipment and facilities	**77,588**	56,974	61,586
Recompletions	**19,282**	19,789	11,021
Other	**24,092**	15,359	9,976
	194,666	186,836	175,639
Acquisitions (excluding acquired working capital deficiency)	**159,536**	48,230	121,294
	$ 354,202	$ 235,066	$ 296,933

Capital Expenditures by Country ($000's)	2009	2008	2007
Canada	**$ 75,973**	$ 103,725	$ 69,713
France	**62,457**	55,669	73,504
Netherlands	**26,338**	13,019	22,275
Australia	**6,739**	62,653	131,441
Ireland	**182,695**	-	-
	$ 354,202	$ 235,066	$ 296,933

FUND FLOWS NETBACKS

Fund flows from operations was $317.2 million in 2009, as compared to $574.0 million in 2008, largely due to lower average commodity prices during 2009.

2009 Fund Flows Netback ($/boe)	Q1	Q2	Q3	Q4	2009	2008	2007
Oil and gas revenues	$ 49.31	$ 55.49	$ 53.67	$ 65.38	**$ 55.83**	$ 83.61	$ 61.86
Realized hedging gain or (loss)	0.75	0.24	0.39	0.50	**0.47**	(0.89)	(0.25)
Royalties	(7.32)	(6.17)	(8.30)	(12.53)	**(8.52)**	(10.92)	(8.53)
Transportation	(1.47)	(1.51)	(1.33)	(2.33)	**(1.65)**	(1.96)	(2.01)
Operating costs	(11.52)	(11.70)	(12.24)	(13.35)	**(12.18)**	(11.98)	(10.45)
Operating netback	29.75	36.35	32.19	37.67	**33.95**	57.86	40.62
General and administration	(2.29)	(2.55)	(2.93)	(3.16)	**(2.72)**	(2.07)	(1.64)
Interest	(0.60)	(0.43)	(1.47)	(2.21)	**(1.16)**	(1.36)	(1.95)
Current taxes	(3.14)	(3.40)	(2.31)	(1.33)	**(2.57)**	(6.99)	(2.98)
Proceeds on sale of investments	-	-	-	0.97	**0.23**	0.01	0.11
Other income	-	-	(0.02)	0.01	**-**	-	-
Foreign exchange	(0.65)	(0.83)	(0.67)	2.09	**(0.04)**	0.46	(0.41)
Fund flows netback	$ 23.07	$ 29.14	$ 24.79	$ 34.04	**$ 27.69**	$ 47.91	$ 33.75

2008 Fund Flows Netback ($/boe)	Q1	Q2	Q3	Q4
Oil and gas revenues	$ 76.24	$ 111.19	$ 83.65	$ 62.49
Realized hedging (loss) or gain	(0.73)	(1.94)	(1.51)	0.66
Royalties	(12.18)	(18.35)	(12.03)	(0.83)
Transportation	(2.14)	(1.94)	(1.70)	(2.08)
Operating costs	(11.08)	(10.78)	(12.10)	(14.01)
Operating netback	50.11	78.18	56.31	46.23
General and administration	(1.64)	(2.33)	(2.57)	(1.76)
Interest	(2.04)	(1.67)	(0.91)	(0.80)
Current taxes	(6.94)	(13.58)	(6.77)	(0.46)
Proceeds on sale of investments	-	-	0.02	-
Foreign exchange	0.18	1.39	(1.22)	1.42
Fund flows netback	$ 39.67	$ 61.99	$ 44.86	$ 44.63

REVENUE

Revenue for the year ended December 31, 2009 was $639.8 million compared to $1.0 billion in 2008. Vermilion's combined crude oil and NGL price was $68.90 per boe in 2009, a decrease of 32.0% over the $101.32 per boe reported in 2008. The natural gas price realized was $5.62 per mcf in 2009 compared to $9.60 per mcf in 2008, a 41.5% decrease year over year. Vermilion's lower revenue year over year was primarily driven by lower average commodity prices in 2009 versus 2008.

	Years Ended December 31	
($000's except per boe and per mcf)	2009	2008
Crude oil & NGLs	**$ 496,331**	$ 722,512
Per boe	**$ 68.90**	$ 101.32
Natural gas	**143,420**	279,393
Per mcf	**$ 5.62**	$ 9.60
Petroleum and natural gas revenue	**$ 639,751**	$ 1,001,905
Per boe	**$ 55.83**	$ 83.61

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

	As at Dec 31, 2009	As at Sep 30, 2009	As at Jun 30, 2009	As at Mar 31, 2008
France (bbls)	**167,962**	147,043	151,488	214,384
France ($000's)	**$ 5,068**	$ 4,459	$ 4,706	$ 7,097
Australia (bbls)	**5,387**	246,311	137,518	334,838
Australia ($000's)	**$ 167**	$ 7,499	$ 4,143	$ 9,402

Late in December 2009, Vermilion had a large oil lifting in Australia which resulted in a significant reduction to inventory as at December 31, 2009.

DERIVATIVE INSTRUMENTS

Vermilion manages a component of its risk exposure through prudent commodity and currency economic hedging strategies. Vermilion had the following financial derivatives in place at December 31, 2009:

Risk Management: Oil	Funded Cost	bbls/d	US $/bbl
Collar - WTI			
2010	US $0.00/bbl	1,500	$ 70.00 - $ 97.80
2010	US $1.00/bbl	1,500	$ 72.00 - $ 99.00
2010	US $1.00/bbl	1,500	$ 72.00 - $100.65
2010	US $1.50/bbl	750	$ 70.00 - $ 97.40
2010	US $1.50/bbl	750	$ 69.00 - $ 90.15
Call Spread - BRENT			
2010	US $4.94/bbl	1,100	$ 65.00 - $ 85.00
2011	US $6.08/bbl	960	$ 65.00 - $ 85.00
2010	US $5.64/bbl	700	$ 65.00 - $ 85.00
2011	US $5.15/bbl	600	$ 65.00 - $ 85.00
Risk Management: Natural Gas	**Funded Cost**	**GJ/d**	**$/bbl**
SWAP - AECO			
January 2010 to October 2011	$0.00/GJ	700	$ 5.13
Put – AECO			
January 2010 to March 2010	$0.17/GJ	10,000	$ 4.50
January 2010 to March 2010	$0.17/GJ	4,000	$ 4.50
April 2010 to October 2010	$0.35/GJ	10,000	$ 4.50
Collar – AECO			
April 2010 to October 2010	$0.25/GJ	2,000	$ 4.70 - $ 7.35

The impact of Vermilion’s economic hedging program increased the fund flows netback by $0.47 per boe for the year ended December 31, 2009 as the price of oil was lower than the floor on the US $100.50 to US $200.00 collar the Trust held during the year. This compares to a hedging cost of $0.89 per boe in 2008.

ROYALTIES

Consolidated royalties for the year ended December 31, 2009 were $8.52 per boe as compared to $10.92 per boe in 2008. As a percent of revenue for the year ended December 31, 2009, royalties were 15% as compared to 13% in 2008.

In Australia, royalties, as a percentage of revenue for the year ended December 31, 2009, were 27% as compared to 20% in 2008. Royalties are reduced by capital investment in the country and as such, the year over year royalties as a percentage of revenue increased as compared to the prior year as a result of higher levels of capital spending in 2008 related to the Trust’s active Australian capital program in the fourth quarter of that year.

In Canada, royalties as a percent of revenue for the year ended December 31, 2009, decreased to 15% as compared to 19% in the prior year. The year over year decrease is attributable to the impact of lower commodity prices in 2009 versus 2008 combined with additional gas cost allowance recoveries related to prior periods realized during 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, as the average commodity prices were lower in 2009 as compared to 2008, royalties as a percent of revenue increased to 8% versus 6% in the prior year.

Production in the Netherlands is not subject to royalties.

($000's except per boe and per mcf)		Years Ended December 31 2009		2008
Crude oil & NGLs	**$**	**92,226**	$	96,736
Per boe	**$**	**12.80**	$	13.57
Natural gas		**5,406**		34,092
Per mcf	**$**	**0.21**	$	1.17
Royalties	**$**	**97,632**	$	130,828
Per boe	**$**	**8.52**	$	10.92

OPERATING COSTS

Consolidated operating costs per boe for the year ended December 31, 2009 were $12.18 compared to $11.98 for 2008. Canadian operating costs have remained at a relatively consistent level on a per boe basis for 2009 at $10.13 compared to $10.48 in 2008.

Operating costs in France increased in 2009 to $12.40 per boe compared to $11.98 per boe in 2008. This increase is attributable to slightly lower production levels in 2009 versus 2008 resulting in higher per unit fixed costs.

Australian operating costs decreased to $13.82 per boe in 2009 from $14.64 per boe in 2008 as a result of lower costs associated with transporting staff to the offshore platforms as well as higher production levels in 2009 reflecting the full year impact of two wells drilled and placed on production late in 2008.

Operating costs in the Netherlands increased in 2009 to $14.78 per boe versus $12.19 per boe in 2008 due to lower production resulting from the temporary shut-in of production at Harlingen in mid-July 2008 as a result of subsidence concerns.

($000's except per boe and per mcf)		Years Ended December 31 2009		2008
Crude oil & NGLs	**$**	**91,338**	$	90,250
Per boe	**$**	**12.68**	$	12.66
Natural gas		**48,268**		53,288
Per mcf	**$**	**1.89**	$	1.83
Operating	**$**	**139,606**	$	143,538
Per boe	**$**	**12.18**	$	11.98

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 whereas the majority of Vermilion's Canadian oil production is sold at the wellhead. In France, the majority of Vermilion's transportation costs are made up of shipping charges incurred in the Aquitaine Basin where oil production is transported by tanker from the Ambès terminal in Bordeaux to the refinery. In Australia, oil is sold at the Wandoo B platform and in the Netherlands gas is sold at the plant gate, resulting in no transportation costs relating to Vermilion's production in these countries.

Transportation costs in France decreased in 2009 compared to the prior year as a resumption of terminal operations occurred during the second quarter of 2009 when two storage tanks were placed back into service. Long term plans for the terminal include an expanded level of operations utilizing four storage tanks.

($000's except per boe)		Years Ended December 31 2009		2008
Transportation	**$**	**18,939**	$	23,545
Per boe	**$**	**1.65**	$	1.96

GENERAL AND ADMINISTRATION EXPENSE

General and administration expenses per boe for the year ended December 31, 2009 were $2.72 as compared to $2.07 in 2008. The increase per boe from 2008 is associated with an overall increase in employee related costs and a decrease in third-party marketing fee recoveries combined with higher legal and advisory fees associated with a restructuring of Vermilion's international holding companies that will result in a more efficient corporate structure.

	Years Ended December 31	
($000's except per boe)	**2009**	**2008**
General and administration	**$ 31,192**	$ 24,837
Per boe	**$ 2.72**	$ 2.07

UNIT BASED COMPENSATION EXPENSE

Non-cash unit based compensation expense for the year ended December 31, 2009 was $18.2 million as compared to $18.4 million in 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 as well as units issued pursuant to the Trust's bonus plan.

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

	Years Ended December 31	
($000's except per boe)	**2009**	**2008**
Unit based compensation expense	**$ 18,196**	$ 18,388
Per boe	**$ 1.59**	$ 1.53

INTEREST EXPENSE

Interest expense for the year ended December 31, 2009 was $13.3 million as compared to $16.3 million in 2008. The decrease in interest expense in 2009 versus 2008 is a result of lower average debt levels.

	Years Ended December 31	
($000's except per boe)	**2009**	**2008**
Interest	**$ 13,268**	$ 16,331
Per boe	**$ 1.16**	$ 1.36

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

Depletion, depreciation and accretion expenses per boe for the year ended December 31, 2009 were $21.71 as compared to $21.32 in 2008. Depletion, depreciation and accretion rates in 2009 have remained consistent from the prior year.

	Years Ended December 31	
($000's except per boe)	**2009**	**2008**
Depletion, depreciation and accretion	**$ 248,726**	$ 255,473
Per boe	**$ 21.71**	$ 21.32

TAXES

Vermilion is subject to current taxes in France, the Netherlands and Australia. Current taxes for the year ended December 31, 2009 decreased to $29.4 million compared to $83.8 million in the prior year. This decrease is mainly attributable to the significantly lower average commodity prices in 2009 compared to 2008.

	Years Ended December 31	
($000's except per boe)	**2009**	**2008**
Current taxes	**$ 29,429**	$ 83,804
Per boe	**$ 2.57**	$ 6.99

As at December 31, 2009, Vermilion had the following tax pools:

($000's)	Oil & Gas Assets		Tax Losses[5]	Other	Total
Canada	$ 363,931	[1]	$ 228,086	$ 1,600	**$ 593,617**
France	43,729	[3]	53,550	-	**97,279**
Australia	177,768	[1]	-	-	**177,768**
Netherlands	51,915	[2]	-	-	**51,915**
Ireland	540,520	[4]	78,429	-	**618,949**
Total	$ 1,177,863		$ 360,065	$ 1,600	**$ 1,539,528**

(1) Deduction calculated by various declining balance rates
(2) Deduction calculated by unit of production method
(3) Deduction calculated by combination of straight-line over the assets life and unit of production method
(4) Deduction for development expenditures at 100%
(5) Losses are deductible at 100% against taxable income

Publicly traded income and royalty trusts will be subject to a new taxation structure (the "SIFT Rules") starting in 2011. The applicable tax rate under the SIFT Rules has a federal and provincial tax rate component. As at the end of December 31, 2008, the provincial component was deemed to be 13%. In March 2009, the related income tax regulations for calculating the provincial SIFT tax rate were enacted. As substantially all of Vermilion's Canadian operations are in Alberta, we expect the provincial SIFT tax rate to be 10%.

After an extensive review of available alternatives, Vermilion has determined that overall it is more beneficial to operate as a corporation than as a trust being subject to the SIFT Rules. As a result, it is the intention of Vermilion to convert from a trust into a corporation effective September 1, 2010, subject to approval of the unitholders. Management is undertaking the analysis to determine the final conversion plan and does not expect any adverse tax implications from the transaction to Vermilion or its unitholders.

After the conversion, Vermilion will be subject to normal corporate tax rates on its taxable income in Canada. There will be no impact on the international operations of Vermilion as a result of the conversion. As at the end of December 31, 2009, there is approximately $593.6 million of tax pools available to reduce Canadian taxable income deductible at various rates and Vermilion currently does not expect to pay taxes in Canada in the immediate future, subject to changes in the business model or significant increases in commodity prices.

FOREIGN EXCHANGE

For the year ended December 31, 2009, a combined realized and unrealized foreign exchange gain of $39.9 million was recorded compared to a loss of $47.1 million in 2008. The combined gain through December 31, 2009 is comprised of a realized loss of $0.5 million and an unrealized, non-cash gain of $40.4 million. The year to date unrealized gain is largely related to the translation to Canadian dollars of foreign currency denominated future income taxes and asset retirement obligations. Since December 31, 2008, the Canadian dollar has strengthened against the Euro resulting in this unrealized gain.

	Years Ended December 31	
($000's except per boe)	**2009**	**2008**
Foreign exchange (gain) loss	**$ (39,894)**	$ 47,110
Per boe	**$ (3.48)**	$ 3.93

EARNINGS

Net earnings for the year ended December 31, 2009 were $185.5 million or $2.56 per unit as compared to $229.2 million or $3.30 per unit in 2008. The decrease in earnings for 2009 versus 2008 is largely associated with lower average commodity price levels in 2009 as compared to the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Vermilion's net debt as at December 31, 2009 was $120.4 million compared to $207.8 million as at December 31, 2008.

As at December 31, 2009, the Trust had syndicated credit facilities allowing for maximum borrowings of $675 million comprised of a revolving facility and an acquisition facility. The revolving period under the revolving credit facility is expected to expire in June 2010 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. The acquisition facility is a non-revolving, non-extendible facility permitting maximum borrowings of $100 million and is expected to mature in June 2010. Various borrowing options are available under the facilities including prime rate based advances and bankers' acceptance loans.

The credit facilities are secured by various fixed and floating charges against subsidiaries of the Trust. Under the terms of the revolving credit facility, the Trust must maintain a ratio of total borrowings under the facility to consolidated earnings before interest, income taxes, depreciation, accretion and other certain non-cash items of not greater than 3.0. Borrowings under the acquisition facility are subject to certain conditions including unanimous approval of all banks in the syndicate.

The amount available to the Trust under these facilities is reduced by outstanding letters of credit totalling $85.1 million as at December 31, 2009 associated with the Trust's operations. Through December 31, 2009, the Trust had not drawn on the acquisition facility. Subsequent to December 31, 2009, the Trust obtained a financial guarantee from a third party to backstop a substantial portion of the Trust's letters of credit. This allows Vermilion to maintain access to substantially all of its available credit facility.

On October 30, 2009, the Trust completed the sale of 7,282,000 trust units at $30.90 per trust unit which resulted in net proceeds of $213.8 million after deducting the underwriters' fee. The underwriters subsequently exercised the over-allotment option associated with the offering resulting in the issuance of an additional 809,000 trust units for $23.8 million in net proceeds.

On December 21, 2009, Vermilion completed the previously announced sale of its 18.8 million shares of Verenex, representing the Trust's entire investment in that entity, at $7.29 per share resulting in net proceeds of $136.5 million. The gain associated with this sale transaction was $80.5 million and is reflected as a gain related to equity method investment on the consolidated statement of earnings. Also included within the gain related to equity method investment on the consolidated statement of earnings is the equity method loss for the period prior to the sale transaction.

Effective June 2008, Vermilion suspended its DRIP as a 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. In December 2009, Vermilion announced it was reinstating the DRIP effective January 15, 2010. Cash flows from financing activities for the year ended December 31, 2008 included cash flows related to the issuance of trust units pursuant to the DRIP of $18.5 million and there were no proceeds related to the program in 2009.

On July 30, 2009, the Trust completed its previously announced acquisition of an 18.5% non-operated interest in the Corrib gas field located off the northwest coast of Ireland for cash consideration of $136.8 million. Pursuant to the terms of the acquisition agreement, the Trust will make an additional future payment to the vendor, the amount of which will be between US $135 million and US $300 million depending on the date when first commercial gas is achieved. Management currently expects that first commercial gas will be achieved by the end of 2012.

To reflect the future payment due to the vendor, the Trust has recognized a non-current liability which was determined by calculating the expected value of the payment based on management's initial estimate at the date of acquisition that first commercial gas would occur at the end of 2011 and then discounting the resulting amount. The discount rate used to present value this obligation was 8%, which is the Trust's best estimate of the interest rate that would result from an arm's length borrowing transaction associated with the purchase of these assets. During the year ended December 31, 2009, $3.2 million of interest expense associated with the unwinding of the discount on this obligation was capitalized. The cost of this acquisition, which is not a business combination for accounting purposes, was allocated as follows:

Capital assets	$	304,564
Future income tax assets		67,299
Asset retirement obligation		(9,788)
Working capital		(57,507)
Total consideration	$	304,568

Comprised of:

Cash	$ 136,832
Present value of estimated future payment due to vendor	167,736
Total consideration	$ 304,568

As a result of revised estimates associated with the timing of first commercial gas subsequent to the compilation of the purchase price allocation above, management prospectively adjusted the discounted amount of consideration due to the vendor. This adjustment resulted in a decrease in the discounted amount due to the vendor of $56.3 million, a decrease in the value of capital assets of $75.7 million and an increase in associated future income tax assets of $18.8 million. These adjustments are reflected in the Trust's consolidated balance sheet at December 31, 2009.

Liquidity and Capital Resources	2009	2008	2007
Net debt ($m)	**$ 120,400**	$ 207,753	$ 416,858
Bank facilities ($m)	**$ 675,000**	$ 675,000	$ 625,000
Unused bank facilities ($m)	**$ 554,600**	$ 467,247	$ 208,142
Net debt to annual fund flows from operations ratio [1]	**0.38**	0.36	1.08
Net debt to equity ratio [1]	**0.12**	0.28	0.66

[1] These are non-GAAP measures and may not be comparable to similar measures for other entities. See "Non-GAAP Measures" for further detail.

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.

Payments due by period ($000's)

	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt obligations [1]	$ 161,400	$ -	$ 161,400	$ -	$ -
Amount due pursuant to acquisition	141,291	-	141,291	-	-
Operating lease obligations	83,204	4,439	19,554	13,690	45,521
Total	$ 385,895	$ 4,439	$ 322,245	$ 13,690	$ 45,521

[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 in relation to the Trust's financial position.

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, 2009, the fair value of the reclamation fund was $69.0 million and the fund was comprised of $22.0 million in cash and short-term investments and $47.0 million in equity and debt securities. A portion of the cash and short-term investments and all of the equity and debt securities are professionally managed by third parties.

ASSET RETIREMENT OBLIGATIONS

At December 31, 2009, Vermilion's asset retirement obligations were $237.1 million compared to $265.1 million as at December 31, 2008. The decrease 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, 2009 and 2008, the Trust completed reviews of its estimates of the expected costs to reclaim the net interest in its wells and facilities. 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, 2009 and declared distributions totalling $166.4 million compared to $158.7 million for the same period in 2008.

Since inception, the Trust has declared $939.8 million in distributions to unitholders as compared to unitholders' capital of $711.7 million at December 31, 2009.

There were no proceeds from the Trust's DRIP in 2009 (2008 - $18.5 million) as the program was suspended effective June 2008. In December 2009, Vermilion reinstated its DRIP beginning with the January 15, 2010 distribution. As an incentive, Vermilion offers eligible holders of trust units to receive additional trust units equal to 5% of cash distributions by reinvesting the distribution.

Sustainability of Distributions

($000's)	Three Months Ended Dec 31, 2009	Year Ended Dec 31, 2009	Year Ended Dec 31, 2008	Year Ended Dec 31, 2007
Cash flows from operating activities	**$ 84,184**	**$ 230,316**	$ 660,135	$ 349,890
Net earnings	**$ 122,900**	**$ 185,498**	$ 229,189	$ 164,286
Distributions declared	**$ 45,019**	**$ 166,385**	$ 158,674	$ 136,389
Excess of cash flows from operating activities over cash distributions declared	**$ 39,165**	**$ 63,931**	$ 501,461	$ 213,501
Excess of net earnings over cash distributions declared	**$ 77,881**	**$ 19,113**	$ 70,515	$ 27,897

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 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 distributions, 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, 2009, 1.2 million trust units were issued pursuant to the conversion of exchangeable shares and the Trust's unit based compensation programs.

On October 30, 2009, the Trust completed the sale of 7,282,000 trust units at $30.90 per trust unit which resulted in net proceeds of $213.8 million after deducting the underwriters' fee. The underwriters subsequently exercised the over-allotment option associated with the offering resulting in the issuance of an additional 809,000 trust units for $23.8 million in net proceeds.

Unitholders' capital increased in 2009 by $250.5 million as a result of the issuance of those units and $16.8 million as a result of contributed surplus transfer related to unit based compensation plans.

In October 2008, the Trust acquired and then cancelled 45,600 of its own trust units pursuant to a normal course issuer bid. The cost to acquire these trust 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.

As at March 15, 2010 there were 79,657,564 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, 2009, there were 4.0 million exchangeable shares outstanding at an exchange ratio of 1.80065 whereby 7.2 million trust units would be issuable upon conversion. The exchangeable shares can be redeemed by the shareholder for trust units at any time. All outstanding exchangeable shares must be redeemed on or before January 22, 2013 and Vermilion may redeem the exchangeable shares at any time if the number of exchangeable shares outstanding falls below 500,000 shares. Vermilion may issue cash or trust units upon redemption of exchangeable shares and it is the intention to issue trust units upon redemption. Upon converting to a corporation, it is expected that the outstanding exchangeable shares will be converted to common shares of Vermilion at the exchange ratio prevailing at the time of conversion.

RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

Risk and Uncertainties

Crude oil and natural gas exploration, production, acquisition and marketing operations involve a number of risks and uncertainties. These include fluctuations in commodity prices, exchange rates and interest rates as well as uncertainties associated with reserve volumes, production and sales volumes and governmental regulatory and income tax regime changes. These risks and uncertainties, as well as other important risks and uncertainties are discussed in additional detail below.

<u>Commodity Prices</u>

The Trust's operational results and financial condition will be dependent on the prices received by Vermilion for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions.

Exchange Rates
Much of the Trust's revenue stream is earned in U.S. dollars and as such an increase in the strength of the Canadian dollar relative to the U.S. dollar may result in the receipt of fewer Canadian dollars by Vermilion in respect of its production. In addition, the Trust incurs expenses and capital costs in U.S. dollars, Euros and Australian dollars and accordingly, the Canadian dollar equivalent of these expenditures as reported by the Trust in its financial results is impacted by the prevailing foreign currency exchange rates at the time the transaction occurs. The Trust monitors and, when appropriate, uses derivative financial instruments to manage its exposure to these risks.

Production and Sales Volumes
The operation of oil and gas wells and facilities involves a number of operating and natural hazards which may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to Vermilion and possible liability to third parties. Vermilion maintains liability insurance, where available, in amounts consistent with industry standards. Business interruption insurance may also be purchased for selected operations, to the extent that such insurance is available. Vermilion may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities may materially impact Vermilion's financial results.

Continuing production from a property, and to some extent the marketing of production, are largely dependent upon the ability of the operator of the property. To the extent the operator fails to perform these functions properly, revenue may be reduced. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent. Although satisfactory title reviews are generally conducted in accordance with industry standards, such reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat the claim of Vermilion or its subsidiaries to certain properties. Such circumstances could negatively affect Vermilion's financial results.

An increase in operating costs or a decline in Vermilion's production level could have an adverse effect on Vermilion's financial results. The level of production may decline at rates greater than anticipated due to unforeseen circumstances, many of which are beyond Vermilion's control. A significant decline in production could result in materially lower revenues

Interest Rates
An increase in interest rates could result in a significant increase in the amount the Trust pays to service debt.

Reserve Volumes
The Trust's reserve volumes and related reserve values support the carrying value of Vermilion's oil and gas assets on the consolidated balance sheets and provide the basis to calculate the depletion of those costs. There are numerous uncertainties inherent in estimating quantities of reserves and future net revenues to be derived therefrom, including many factors beyond the Trust's control. These include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of crude oil and natural gas, operating costs, well abandonment and salvage values, royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on estimated prices in use at the date the evaluation was prepared, and many of these assumptions are subject to change and are beyond the Trust's control. Actual production and income derived therefrom will vary from these evaluations, and such variations could be material.

Asset Retirement Obligations
The Trust's asset retirement obligations are based on environmental regulations and estimates of future costs and the timing of expenditures. Changes in environmental regulations, the estimated costs associated with reclamation activities and the related timing may impact the Trust's financial position and results of operations.

Corrib Project
The Trust is exposed to uncertainties associated with the timing of first gas resulting from the permitting process for a section of the onshore pipeline relating to the Corrib project. The ultimate timing of first gas impacts the final payment due to the vendor and is the main determinant as to when the Trust will begin to realize its investment in the project.

Governmental Regulatory and Income Tax Regime
Vermilion's operations are governed by many levels of government, including municipal, state, provincial and federal governments, in Canada, France, the Netherlands, Australia and Ireland. Vermilion is subject to laws and regulations regarding health and safety issues, lease interests, taxes and royalties, among others. Failure to comply with the applicable laws can result in significant increases in costs, penalties and even losses of operating licences. The regulatory process involved in each of the countries in which Vermilion operates is not uniform and regulatory regimes vary as to complexity, timeliness of access to, and response from, regulatory bodies and other matters specific to each jurisdiction. If regulatory approvals or permits are delayed or not obtained, there can also be delays or abandonment of projects, decreases in production and increases in costs, and Vermilion may not be able to fully execute its strategy. Governments may also amend or create new legislation and regulatory bodies may also amend regulations or impose additional requirements which could result in increased capital, operating and compliance costs.

There can be no assurance that income tax laws and government incentive programs relating to the oil and gas industry in Canada and the foreign jurisdictions in which the Trust operates, will not be changed in a manner which adversely affects Vermilion's results of operations.

The Government of Alberta receives royalties on production of natural resources from lands in which it owns the mineral rights. A change in the royalty regime resulting in an increase in royalties would reduce Vermilion's earnings and could make future capital expenditures or Vermilion's operations uneconomic and could, in the event of a material increase in royalties, make it more difficult to service and repay outstanding debt. Any material increase in royalties would also significantly reduce the value of the Trust's associated assets.

Risk Management

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 financial instruments encompassing 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. For additional information associated with Vermilion's use of financial instruments, please see note 20 of the Trust's consolidated financial statements for the years ended December 31, 2009 and 2008.

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;
vii. Unit compensation expense is determined using accepted fair value approaches which rely on historical data and certain estimates made by management; and
viii. The amount recorded as due to the vendor pursuant to the Corrib acquisition is dependent on management's estimate of the timing of first gas.

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, 2009.

	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	$ 0.07	$ 5.8 million
Change in natural gas price by $0.10/mcf	$ 0.02	$ 1.7 million
Change in interest rate by one point	$ 0.02	$ 2.2 million
Change in Cdn/US foreign exchange rate by one point	$ 0.03	$ 3.3 million
Change in Cdn/Euro foreign exchange rate by one point	$ 0.01	$ 0.2 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, 2009.

The Trust uses a variety of options including funded and costless collars and puts to manage the risk associated with fluctuating commodity prices on the sale of crude oil and natural gas. The Trust does not obtain collateral or other security to support its financial derivatives as 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 2009, 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 2009. 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 ("IFRS")

Background

Publicly accountable enterprises such as Vermilion must begin to report their financial results under IFRS in 2011. Accordingly, in 2008 Vermilion formed an internal IFRS transition team and retained the services of a large international public accounting firm to advise the Trust in its conversion program. Initially, the transition team focused on completing a scoping diagnostic to determine the areas of significant difference between Canadian GAAP and IFRS and the related reporting and information system issues. Since completing the scoping diagnostic, Vermilion's transition team has continued to draft accounting research and policy papers which are reviewed by the advising public accounting firm.

Project Status

Vermilion has not yet finalized all of its accounting policies under IFRS as the Trust is actively working with peer entities to select, when appropriate and practicable, consistent accounting policies in an effort to preserve comparability. Vermilion remains focused on the transition to IFRS and the Trust will be ready to prepare financial statements under both Canadian GAAP and IFRS for 2010 to provide for comparative financial statements after the official changeover in 2011. Vermilion is targeting to complete its draft opening IFRS balance sheet by June 2010, however as noted above, it is likely that certain issues will not be ultimately concluded upon by that time.

Areas of Focus

The following discussion provides additional information on the key areas of focus; however, as certain aspects of the adoption of IFRS in Canada remain uncertain, Vermilion cannot guarantee that this information will not change as the date of transition approaches. The Trust will continue to communicate information in relation to its conversion process as it becomes available.

<u>Accounting for Capital Assets Including Impairment</u>

Vermilion's transition team is currently determining the Trust's accounting policies associated with capital assets under IFRS. When appropriate, the Trust is electing to make policy choices that minimize the differences between Vermilion's capital asset accounting under current Canadian GAAP and IFRS and also that reflect policies which are consistent with our peer entities.

There are still a number of significant differences associated with accounting for capital assets under IFRS versus Canadian GAAP which will impact Vermilion. Under Canadian GAAP's full-cost accounting, expenditures related to oil and gas assets are aggregated on a country-by-country basis for depletion and impairment testing purposes. Under IFRS, the unit of account for both depletion and impairment testing is significantly smaller and accordingly, non-cash impairments are more likely under IFRS than under Canadian GAAP full-cost accounting.

On July 23, 2009, the International Accounting Standards Board ("IASB") issued amendments to IFRS 1, "First-time Adoption of International Financial Reporting Standards" that greatly reduced the amount of effort required upon transition to IFRS for entities, such as Vermilion, that have historically applied the full-cost method of accounting. Under the amendment, Canadian GAAP full cost pools are allocated to smaller units of account at the transition date of January 1, 2010 based on either reserve volumes or values and currently Vermilion's intends to rely on this exemption and perform this allocation based on reserve values.

Vermilion's current accounting systems and processes are capable of accounting for capital assets at the more detailed level required under IFRS.

<u>Functional Currency</u>

Under Canadian GAAP, Vermilion concluded that the functional currency of its foreign operating subsidiaries is the Canadian dollar. As a result of differences in the requirements for functional currency determination, Vermilion has concluded that under IFRS the functional currency of its foreign operating subsidiaries will be their local currencies. As a consequence of this change, gains and losses related to the translation of the financial statements of these subsidiaries will be recorded through the balance sheet and will not impact net income. In addition, the capital asset accounts of Vermilion's foreign operating subsidiaries will be translated to Canadian dollars at the foreign exchange rates in effect at the balance sheet date whereas presently, these capital asset accounts are translated at historical rates of exchange.

Deferred Income Taxes
Vermilion has been closely monitoring the progress associated with the IASB's exposure draft to replace IAS 12 "Income Taxes." In October 2009, the IASB decided it would not proceed with the exposure draft and instead would consider a limited scope project to amend IAS 12. Accordingly, Vermilion is evaluating the differences between the current version of IAS 12 and the relevant Canadian GAAP requirements.

Accounting for Trust Units and Exchangeable Shares
In Canada, units issued by investment trusts such as Vermilion are redeemable by unitholders and under IFRS, unless certain specific criteria are met, redeemable securities cannot be classified as permanent equity. Although Vermilion plans to convert to a corporation prior to the end of 2010, non-equity presentation of Vermilion's trust units prior to conversion could result in a large increase to the value of Vermilion's resulting share capital with a corresponding decrease in retained earnings.

Vermilion is currently working with its advising public accounting firm to determine whether or not Vermilion's trust units qualify for the exemption which would allow the Trust to continue to present its trust units as equity.

Unit Based Compensation
Vermilion is currently assessing the impact of the redemption feature associated with its trust units and the intended corporate conversion on the Trust's unit based compensation plans.

Asset Retirement Obligations
The basic fundamental premise underlying the accounting for asset retirement obligations is consistent between Canadian GAAP and IFRS, however under the latter, the liability is remeasured at each reporting date using the current risk free interest rate. As the Trust is electing to use the IFRS 1 deemed cost accounting exemption noted above, upon transition Vermilion will recognize its asset retirement obligations at the amounts required under IFRS and will record the difference between those amounts, and the Canadian GAAP values, against retained earnings.

Issues Associated with the Initial Adoption of IFRS
Aside from the IFRS 1 deemed cost accounting exemption, Vermilion has not yet ultimately concluded on what other available exemptions it will take upon transition to IFRS. Presently however, the Trust believes it will apply the IFRS 1 exemptions associated with business combinations and cumulative translation differences related to the change in the functional currency of Vermilion's operating subsidiaries as described above.

As noted previously, Vermilion has conducted a review of its accounting systems and processes and, as a result of a various upgrades that have been completed over recent years, the Trust's current systems and processes will accommodate the transition to IFRS.

Vermilion has established internal controls associated with the IFRS transition which include approvals at various stages of the project and the Trust continues to work closely with its advising public accounting firm in relation to the IFRS conversion.

NEW ACCOUNTING POLICIES

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

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

On July 1, 2009, the Trust adopted the amendments to Section 3855 "Financial Instruments – Recognition and Measurement". The amendments clarify that reclassification out of the held for trading category of an embedded derivative in a contract that can not be measured separately is prohibited. The adoption of this amendment did not have an impact on the Trust's consolidated financial statements.

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures" to require certain additional disclosures relating to the determination of fair values. The amendments require that an entity disclose a fair value hierarchy classification for each class of financial instruments. The amendments are effective for annual financial statements ending on or after September 30, 2009 and these financial statements reflect the additional disclosure requirements. As the amendments relate strictly to disclosure, they did not have a material impact on the financial statements of the Trust.

ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

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

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 currently 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 Canadian Securities Administrators and 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 Management Proxy Circular, which will be filed on SEDAR (www.sedar.com) and mailed to all unitholders on April 6, 2010.

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, 2009, 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 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, 2009. The effectiveness of the Trust's internal control over financial reporting as of December 31, 2009 has been audited by Deloitte & Touche LLP, as reflected in their report for 2009. No changes were made to the Trust's internal control over financial reporting during the year ending December 31, 2009, 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 judgements 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 12, 2010

("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, 2009 and 2008 and the consolidated statements of earnings, comprehensive income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2009 and 2008 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 12, 2010, 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 22, Differences Between Canadian and United States of America Generally Accepted Accounting Principles.

("Deloitte & Touche LLP")

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta
March 12, 2010

Consolidated Balance Sheets
December 31
(Thousands of Canadian dollars)

	2009	2008
ASSETS		
Current		
Cash and cash equivalents (Notes 2 and 18)	**$ 99,066**	$ 67,231
Short-term investments (Note 2)	**15,895**	9,491
Accounts receivable	**117,051**	123,794
Crude oil inventory	**5,235**	12,167
Derivative instruments (Note 13)	**8,217**	11,638
Prepaid expenses and other	**11,422**	15,852
	256,886	240,173
Derivative instruments (Note 13)	**7,896**	3,566
Future income taxes (Note 8)	**119,714**	-
Long-term investments (Notes 4 and 16)	**4,342**	63,752
Goodwill	**19,840**	19,840
Reclamation fund (Note 6)	**69,003**	63,399
Capital assets (Notes 4 and 5)	**1,606,995**	1,407,629
	$ 2,084,676	$ 1,798,359
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 197,633**	$ 179,312
Distributions payable to unitholders	**15,109**	13,340
Derivative instruments (Note 13)	**1,772**	-
Income taxes payable	**2,366**	57,623
Future income taxes (Note 8)	**683**	-
	217,563	250,275
Long-term debt (Note 7)	**159,723**	197,651
Amount due pursuant to acquisition (Note 4)	**111,402**	-
Asset retirement obligations (Note 6)	**237,110**	265,101
Future income taxes (Note 8)	**218,764**	245,799
	944,562	958,826
Non-controlling interest - exchangeable shares (Note 10)	**100,824**	84,523
UNITHOLDERS' EQUITY		
Unitholders' capital (Note 9)	**711,667**	444,353
Contributed surplus (Note 9)	**30,413**	29,698
Retained earnings	**297,210**	280,959
	1,039,290	755,010
	$ 2,084,676	$ 1,798,359

APPROVED BY THE BOARD

("W. Kenneth Davidson")

W. Kenneth Davidson, Director

("Lorenzo Donadeo")

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)

		2009		2008
REVENUE				
Petroleum and natural gas revenue	$	639,751	$	1,001,905
Royalties		(97,632)		(130,828)
		542,119		871,077
EXPENSES AND OTHER (INCOME) EXPENSE				
Operating		139,606		143,538
Transportation		18,939		23,545
Unit based compensation (Note 11)		18,196		18,388
(Gain) on derivative instruments (Note 13)		(4,526)		(2,477)
Interest		13,268		16,331
General and administration		31,192		24,837
Foreign exchange (gain) loss		(39,894)		47,110
Other (income) expense		(8,021)		5,261
Depletion, depreciation and accretion		248,726		255,473
		417,486		532,006
EARNINGS BEFORE INCOME TAXES AND OTHER ITEMS		124,633		339,071
INCOME TAXES (NOTE 8)				
Future		(30,963)		4,003
Current		29,429		83,804
		(1,534)		87,807
OTHER ITEMS				
Non-controlling interest - exchangeable shares (Note 10)		17,977		22,526
(Gain) related to equity method investment (Note 4)		(77,308)		(451)
		(59,331)		22,075
NET EARNINGS AND COMPREHENSIVE INCOME		185,498		229,189
Retained earnings, beginning of year		280,959		217,209
Distributions declared (Note 9)		(166,385)		(158,674)
Repurchase of units (Note 9)		-		(931)
Unit-settled distributions on vested unit based awards (Note 9)		(2,862)		(5,834)
RETAINED EARNINGS, END OF YEAR	$	297,210	$	280,959
NET EARNINGS PER TRUST UNIT (NOTE 12)				
Basic	$	2.56	$	3.30
Diluted	$	2.53	$	3.23
WEIGHTED AVERAGE TRUST UNITS OUTSTANDING (NOTE 12)				
Basic		72,405,606		69,548,183
Diluted		80,569,607		78,018,769

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

		2009		2008
OPERATING				
Net earnings	$	185,498	$	229,189
Adjustments:				
Depletion, depreciation and accretion		248,726		255,473
Change in unrealized gains and losses and accruals relating to derivative contracts (Note 13)		863		(13,102)
Unit based compensation		18,196		18,388
(Gain) related to equity method investment		(77,308)		(451)
Unrealized foreign exchange (gain) loss		(40,374)		52,579
Non-controlling interest - exchangeable shares		17,977		22,526
Change in unrealized gains and losses and accruals included in other (income) expense relating to investments		(8,052)		5,361
Proceeds from held for trading investments		2,674		-
Future income taxes		(30,963)		4,003
		317,237		573,966
Asset retirement costs incurred (Note 6)		(10,139)		(10,200)
Changes in non-cash operating working capital (Note 14)		(76,782)		96,369
Cash flows from operating activities		230,316		660,135
INVESTING				
Drilling and development of petroleum and natural gas properties		(194,666)		(186,836)
Acquisition of petroleum and natural gas properties		(159,536)		(46,466)
Corporate acquisition, net of cash acquired		-		(1,764)
Purchase of short-term investments		(6,404)		(9,491)
Long-term investment (Note 4)		136,479		(627)
Contributions to reclamation fund (Note 6)		-		(10,378)
Changes in non-cash investing working capital (Note 14)		(1,631)		(179)
Cash flows used in investing activities		(225,758)		(255,741)
FINANCING				
Decrease in long-term debt		(37,053)		(258,836)
Issue of trust units for cash (Note 9)		240,178		3,740
Issue of trust units pursuant to the distribution reinvestment plan		-		18,453
Cash distributions		(164,616)		(158,128)
Repurchase of units		-		(1,213)
Cash flows from (used in) financing activities		38,509		(395,984)
Foreign exchange (loss) gain on cash held in foreign currencies		(11,232)		10,953
Net change in cash and cash equivalents		31,835		19,363
Cash and cash equivalents, beginning of year		67,231		47,868
Cash and cash equivalents, end of year (Note 18)	$	99,066	$	67,231
Supplementary information - cash payments				
Interest paid	$	12,301	$	14,905
Income taxes paid	$	84,686	$	27,699

1. BASIS OF PRESENTATION

Vermilion Energy Trust (the “Trust” or “Vermilion”) is an open-end unincorporated investment trust governed by the laws of the Province of Alberta and created in 2003 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 a Plan of Arrangement, former holders of common shares of Vermilion Resources Ltd. (“Resources” or 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. 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.

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 2009 and 2008 only the Trust's investment in Verenex Energy Inc. ("Verenex") was subject to the equity basis of accounting. On December 21, 2009, the Trust sold its investment in Verenex (see Note 4) and accordingly, as at December 31, 2009, the Trust did not have any investments which were 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 Trust's 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)

Financial Instruments

Cash and cash equivalents and short-term investments are classified as held for trading and are measured at fair value. 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 are then 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, long-term debt and amount due pursuant to acquisition, have been classified as other financial liabilities and are initially recognized at fair value and subsequently are measured at amortized cost. Transaction costs and discounts are recorded against 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) expense in the consolidated statements of earnings.

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 and instead 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

Capitalized Interest

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of that asset.

3. NEW ACCOUNTING POLICIES

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

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

On July 1, 2009, the Trust adopted the amendments to Section 3855 "Financial Instruments – Recognition and Measurement". The amendments clarify that reclassification out of the held for trading category of an embedded derivative in a contract that can not be measured separately is prohibited. The adoption of this amendment did not have an impact on the Trust's consolidated financial statements.

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures" to require certain additional disclosures relating to the determination of fair values. The amendments require that an entity disclose a fair value hierarchy classification for each class of financial instruments. The amendments are effective for annual financial statements ending on or after September 30, 2009 and these financial statements reflect the additional disclosure requirements. As the amendments relate strictly to disclosure, they did not have a material impact on the financial statements of the Trust.

4. ACQUISITIONS AND DISPOSITIONS

a) Corrib Acquisition

On July 30, 2009, the Trust completed its previously announced acquisition of an 18.5% non-operated interest in the Corrib gas field located off the northwest coast of Ireland for cash consideration of $136.8 million. Pursuant to the terms of the acquisition agreement, the Trust will make an additional future payment to the vendor, the amount of which will be between US $135 million and US $300 million depending on the date when first commercial gas is achieved. Management currently expects that first commercial gas will be achieved by the end of 2012.

To reflect the future payment due to the vendor, the Trust has recognized a non-current liability which was determined by calculating the expected value of the payment based on management's initial estimate at the date of acquisition that first commercial gas would occur at the end of 2011 and then discounting the resulting amount. The discount rate used to present value this obligation was 8%, which is the Trust's best estimate of the interest rate that would result from an arm's length borrowing transaction associated with the purchase of these assets. During the year ended December 31, 2009, $3.2 million of interest expense associated with the unwinding of the discount on this obligation was capitalized. The cost of this acquisition, which is not a business combination for accounting purposes, was allocated as follows:

Capital assets	$	304,564
Future income tax assets		67,299
Asset retirement obligation		(9,788)
Working capital		(57,507)
Total consideration	$	304,568

Comprised of:		
Cash	$	136,832
Present value of estimated future payment due to vendor		167,736
Total consideration	$	304,568

As a result of revised estimates associated with the timing of first commercial gas subsequent to the compilation of the purchase price allocation above, management prospectively adjusted the discounted amount of consideration due to the vendor. This adjustment resulted in a decrease in the discounted amount due to the vendor of $56.3 million, a decrease in the value of capital assets of $75.7 million and an increase in associated future income tax assets of $18.8 million. These adjustments are reflected in the Trust's consolidated balance sheet at December 31, 2009.

b) Disposition of Verenex and Related Party Transaction

On December 21, 2009, Vermilion completed the previously announced sale of its 18.8 million shares of Verenex, representing the Trust's entire investment in that entity, at $7.29 per share resulting in net proceeds of $136.5 million. The gain associated with this sale transaction was $80.5 million and is reflected as a gain related to equity method investment on the consolidated statement of earnings. Also included within the gain related to equity method investment on the consolidated statement of earnings is the equity method loss of $3.2 million for the period prior to the sale transaction.

During the first quarter of 2009, the Trust acquired a gross overriding royalty ("GORR") from Verenex for cash consideration of $4.5 million. At the time, the Trust owned 42% of Verenex. The transaction was accounted for at the exchange amount and is recorded as acquisition of petroleum and natural gas properties on the consolidated statement of cash flows.

c) Canada Acquisition

On January 31, 2008, the Trust completed a Canadian acquisition of natural 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 acquisition was allocated as follows:

Capital assets	$	46,057
Asset retirement obligation		(1,931)
Total consideration	$	44,126

5. CAPITAL ASSETS

2009	Cost	Accumulated Depletion, Depreciation and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 2,929,311	$ 1,325,568	$ 1,603,743
Furniture and equipment	12,450	9,198	3,252
	$ 2,941,761	$ 1,334,766	$ 1,606,995

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

As at December 31, 2009, the Trust excluded $20.4 million (2008 - $nil) of undeveloped properties from the depletion and depreciation calculation. During the year, the Trust capitalized $4.2 million (2008 - $4.4 million) of overhead costs related to exploration and development activities.

The Trust performed ceiling tests at December 31, 2009 and 2008 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, 2009 and 2008 and therefore, the carrying values are considered recoverable.

The benchmark prices used in the December 31, 2009 calculations are as follows:

CDN$/BOE	Canada	France	Netherlands	Australia	Ireland
2010	$ 48.68	$ 73.17	$ 52.22	$ 82.63	$ -
2011	$ 52.92	$ 75.98	$ 61.65	$ 85.79	$ -
2012	$ 54.35	$ 78.81	$ 60.57	$ 88.95	$ -
2013	$ 55.15	$ 81.64	$ 60.99	$ 92.11	$ 61.16
2014	$ 56.31	$ 84.35	$ 63.08	$ 95.27	$ 63.17
2015	$ 57.46	$ 85.87	$ 64.36	$ 97.20	$ 64.41
2016	$ 59.56	$ 87.40	$ 65.67	$ 99.18	$ 65.67
2017	$ 62.61	$ 89.01	$ 67.00	$ 101.19	$ 66.95
2018	$ 65.77	$ 90.68	$ 68.37	$ 103.25	$ 68.27
2019	$ 67.65	$ 92.36	$ 69.75	$ 105.35	$ 69.60
Average increase thereafter	2.0%	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 $237.1 million as at December 31, 2009 (2008 - $265.1 million) based on a total undiscounted future liability after inflation adjustment of $857.2 million (2008 - $948.2 million). These payments are expected to be made over the next 46 years with the majority of the costs being incurred between 2010 and 2041. The Trust used a credit adjusted risk free rate of 8% and inflation rates between 1.5% and 1.8% to calculate the present value of the asset retirement obligations.

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

		2009		**2008**
Carrying amount, beginning of year	**$**	**265,101**	$	163,374
Increase in liabilities in the period		**10,173**		2,487
Disposition of liabilities in the period		**(10,139)**		(10,200)
Change in estimate		**(24,456)**		66,576
Accretion expense		**20,255**		14,468
Foreign exchange		**(23,824)**		28,396
Carrying amount, end of year	**$**	**237,110**	$	265,101

During the years ended December 31, 2009 and 2008, the Trust reviewed its estimates of the expected costs to reclaim the net interest in its wells and facilities. Accordingly, Vermilion adjusted its asset retirement obligations to reflect these revised estimates and the resulting change is categorized as change in estimate in the table above.

The Trust has set aside funds for the future payment of its estimated asset retirement obligations. In 2009, the Trust did not contribute funds to the reclamation fund (2008 – contribution of $10.4 million).

The Trust's reclamation fund investments consist of:

		2009		**2008**
Cash and short term investments, at fair value	**$**	**22,028**	$	21,700
Equity and debt securities, at fair value		**46,975**		41,699
	$	**69,003**	$	63,399

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

7. LONG-TERM DEBT

As at December 31, 2009, the Trust had syndicated credit facilities allowing for maximum borrowings of $675 million comprised of a revolving facility and an acquisition facility. The revolving period under the revolving credit facility is expected to expire in June 2010 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. The acquisition facility is a non-revolving, non-extendible facility permitting maximum borrowings of $100 million and is expected to mature in June 2010. Various borrowing options are available under the facilities including prime rate based advances and bankers' acceptance loans.

The credit facilities are secured by various fixed and floating charges against subsidiaries of the Trust. Under the terms of the revolving credit facility, the Trust must maintain a ratio of total borrowings under the facility to consolidated earnings before interest, income taxes, depreciation, accretion and other certain non-cash items of not greater than 3.0. Borrowings under the acquisition facility are subject to certain conditions including unanimous approval of all banks in the syndicate.

The amount available to the Trust under these facilities is reduced by outstanding letters of credit totalling $85.1 million as at December 31, 2009 associated with the Trust's operations. Through December 31, 2009, the Trust had not drawn on the acquisition facility. Subsequent to December 31, 2009, the Trust obtained a financial guarantee from a third party to backstop a substantial portion of the Trust's letters of credit. This allows Vermilion to maintain access to substantially all of its available credit facility.

8. INCOME TAXES

The net future income tax liability at December 31, 2009 and 2008 is comprised of the following:

		2009		2008
Future income tax liabilities:				
Capital assets	**$**	**(223,918)**	$	(264,189)
Derivative contracts		**(4,346)**		(4,672)
Partnership income deferral		**-**		(18,120)
Asset retirement obligation		**(41,602)**		(4,630)
Basis difference of investments		**(1,090)**		-
Other		**-**		(3,678)
Unrealized foreign exchange		**(11,305)**		(193)
Future income tax assets:				
Capital assets		**67,403**		-
Non-capital losses		**66,145**		49,491
Partnership loss deferral		**12,449**		-
Basis difference of investments		**-**		62
Other		**1,298**		-
Share issue costs		**2,011**		130
Asset retirement obligation		**33,222**		-
Net future income tax (liability)	**$**	**(99,733)**	$	(245,799)
Comprised of:				
Non-current future income tax asset	**$**	**119,714**	$	-
Current future income tax liability		**(683)**		-
Non-current future income tax liability		**(218,764)**		(245,799)
Net future income tax (liability)	**$**	**(99,733)**	$	(245,799)

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 29.00% (2008 – 29.50%), as follows:

		2009		2008
Earnings before income taxes and non-controlling interest	**$**	**201,941**	$	339,522
Canadian corporate tax rate		**29.00%**		29.50%
Expected tax expense		**58,563**		100,159
Increase (decrease) in taxes resulting from:				
Income attributable to the unitholders		**(48,252)**		(46,809)
Tax incentive programs		**(5,645)**		-
Foreign tax rate differentials [1]		**4,390**		2,735
Unit compensation expense		**5,277**		5,425
Amended returns and pool estimate variances		**137**		1,722
Foreign exchange		**(11,624)**		12,525
Statutory rate changes		**791**		-
Other		**1,526**		6,226
Adjustment for capitalized interest		**800**		-
Adjustment to provisions for tax positions taken		**3,340**		5,824
Non-taxable portion of capital gains		**(10,837)**		-
Provision for income taxes	**$**	**(1,534)**	$	87,807

[1] The corporate tax rate is 34.4% in France, 43.2% in the Netherlands, 30.0% in Australia and 25.0% in Ireland.

9. UNITHOLDERS' CAPITAL AND CONTRIBUTED SURPLUS

	Number of Units		Amount
Trust Units			
Unlimited number of trust units authorized to be issued			
Balance as at December 31, 2007	67,335,427	$	380,941
Distribution reinvestment plan	521,839		18,453
Issued on conversion of exchangeable shares (Note 10)	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
Issued on conversion of exchangeable shares (Note 10)	132,569		4,048
Unit rights exercised and issuance of units on vesting of trust unit award plan grants	945,982		2,817
Transfer from contributed surplus for unit based awards	-		16,846
Trust units issued for bonus plan	23,790		635
Unit-settled distributions on vested unit based awards	116,918		2,862
Unit issuance	8,091,000		240,106
Balance as at December 31, 2009	79,523,028	$	711,667

		2009		2008
Contributed Surplus				
Opening balance	**$**	**29,698**	$	29,211
Unit compensation expense (excluding bonus plan)		**17,561**		17,791
Transfer to unitholders' capital for unit based awards		**(16,846)**		(17,304)
Ending balance	**$**	**30,413**	$	29,698

On October 30, 2009, the Trust completed the sale of 7,282,000 trust units at $30.90 per trust unit which resulted in net proceeds of $213.8 million after deducting the underwriters' fee. The underwriters subsequently exercised the over-allotment option associated with the offering resulting in the issuance of an additional 809,000 trust units for $23.8 million in net proceeds.

Cash distributions declared to unitholders for the year ended December 31, 2009 were $166.4 million (2008 - $158.7 million). Distributions are determined by the Board of Directors in accordance with the Trust Indenture and are paid monthly.

In December 2009, Vermilion reinstated its distribution reinvestment plan beginning with the January 15, 2010 distribution. The plan allows eligible holders of trust units to purchase additional trust units at a 5% discount to market by reinvesting their cash distributions. The plan had previously been suspended in May 2008.

In October 2008, the Trust acquired and then cancelled 45,600 of its own trust units pursuant to a normal course issuer bid. The cost to acquire these trust 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.

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.

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:

	2009	2008
Exchangeable Shares		
Opening number of exchangeable shares	**4,085,605**	4,457,473
Exchanged for trust units	**(76,352)**	(371,868)
Ending balance	**4,009,253**	4,085,605
Ending exchange ratio	**1.80065**	1.66196
Trust units issuable upon conversion	**7,219,261**	6,790,112

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

	2009		2008
Non-controlling interest, beginning of year	**84,523**	$	68,576
Reduction of book value for conversion to trust units	**(1,676)**		(6,579)
Current period net earnings attributable to non-controlling interest	**17,977**		22,526
Non-controlling interest, end of year	**100,824**	$	84,523

11. UNIT COMPENSATION PLANS

Trust Unit Rights Incentive Plan

In 2009, the remaining Trust Unit Rights Incentive Plan awards were exercised and as a result, no awards relating to this plan were outstanding as at December 31, 2009. No awards had been issued under this plan since March 2005 when it was replaced by the Trust Unit Award Incentive Plan.

During the years ended December 31, 2009 and 2008, no compensation expense was recorded related to the Trust Unit Rights Incentive Plan as all awards were fully vested. The following table summarizes information about the Trust's outstanding unit rights:

	2009			2008		
	Number of Unit Rights	Grant Date Weighted Average Exercise Price		Number of Unit Rights	Grant Date Weighted Average Exercise Price	
Opening balance	**339,850**	**$**	**18.40**	1,148,616	$	14.55
Exercised	**(339,850)**	**$**	**18.40**	(808,766)	$	12.93
Closing balance	**-**	**$**	**-**	339,850	$	18.40

11. UNIT COMPENSATION PLANS (Continued)

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 using a Monte Carlo simulation and the resulting expense is recognized over the vesting period. For the awards issued in 2009 and 2008, the following assumptions were used to estimate the fair value of the awards granted:

	2009	2008
Risk-free interest rate	**1.4%**	2.7%
Range of expected volatilities	**15.6% - 47.5%**	12.0% - 45.1%
Expected life of award (years)	**2.80**	2.64
Fair value per award	**$ 30.72**	$ 41.96

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

	2009	2008
Opening balance	**1,208,255**	1,102,495
Granted	**663,113**	533,493
Vested	**(382,239)**	(407,113)
Forfeited	**(71,815)**	(20,620)
Closing balance	**1,417,314**	1,208,255

Compensation expense of $17.6 million was recorded during the year ended December 31, 2009 (2008 - $17.8 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 $1.2 million has been recorded as general and administration expense during the year ended December 31, 2009 (2008 - $0.9 million).

12. PER UNIT AMOUNTS

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

		2009		2008
Net earnings	**$**	**185,498**	$	229,189
Non-controlling interest - exchangeable shares		**17,977**		22,526
Net earnings for diluted net earnings per trust unit calculation	**$**	**203,475**	$	251,715
Basic weighted average trust units outstanding		**72,405,606**		69,548,183
Dilutive impact of trust units issuable on conversion of exchangeable shares		**7,279,431**		7,108,202
Dilutive impact of unit rights incentive and trust unit award plans		**884,570**		1,362,384
Diluted weighted average trust units outstanding		**80,569,607**		78,018,769

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 results in exposure to fluctuations in commodity prices, interest rates and foreign currency exchange rates. The Trust monitors and, when appropriate, uses derivative financial instruments to manage its exposure to these risks. 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 Trust has elected to not designate any of its price risk management activities as accounting hedges and accounts for changes to fair value in net earnings for the period. During the normal course of business, the Trust enters into fixed price arrangements to sell a portion of its production. The Trust has elected to exempt these contracts from fair value accounting through the use of the normal purchase and sales exemption.

The Trust does not obtain collateral or other security to support its financial derivatives as Vermilion reviews the creditworthiness of the counterparty prior to entering into a derivative contract. The following table summarizes the Trust's outstanding financial derivative positions as at December 31, 2009.

Risk Management: Oil	**Funded Cost**	**bbls/d**	**US $/bbl**
Collar - WTI			
2010	US $0.00/bbl	1,500	$ 70.00 - $ 97.80
2010	US $1.00/bbl	1,500	$ 72.00 - $ 99.00
2010	US $1.00/bbl	1,500	$ 72.00 - $100.65
2010	US $1.50/bbl	750	$ 70.00 - $ 97.40
2010	US $1.50/bbl	750	$ 69.00 - $ 90.15
Call Spread - BRENT			
2010	US $4.94/bbl	1,100	$ 65.00 - $ 85.00
2011	US $6.08/bbl	960	$ 65.00 - $ 85.00
2010	US $5.64/bbl	700	$ 65.00 - $ 85.00
2011	US $5.15/bbl	600	$ 65.00 - $ 85.00

13. DERIVATIVE INSTRUMENTS (Continued)

Risk Management: Natural Gas	Funded Cost	GJ/d	$/bbl
SWAP - AECO			
January 2010 to October 2011	$0.00/GJ	700	$ 5.13
Put – AECO			
January 2010 to March 2010	$0.17/GJ	10,000	$ 4.50
January 2010 to March 2010	$0.17/GJ	4,000	$ 4.50
April 2010 to October 2010	$0.35/GJ	10,000	$ 4.50
Collar – AECO			
April 2010 to October 2010	$0.25/GJ	2,000	$ 4.70 - $ 7.35

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

		2009		2008
Fair value of contracts, beginning of year	**$**	**15,204**	$	2,102
Opening unrealized (gain) loss on contracts settled during the year		**(11,959)**		7,414
Realized gain (loss) on contracts settled during the year		**5,389**		(10,625)
Unrealized gain during the period on contracts outstanding at the end of the year		**11,096**		5,688
Net (receipt from) payment to counterparties on contract settlements during the year		**(5,389)**		10,625
Fair value of contracts, end of year		**14,341**		15,204
Comprised of:				
Current derivative asset		**8,217**		11,638
Current derivative liability		**(1,772)**		-
Non-current derivative asset		**7,896**		3,566
Fair value of contracts, end of year	**$**	**14,341**	$	15,204

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

		2009		2008
Realized (gain) loss on contracts settled during the year	**$**	**(5,389)**	$	10,625
Opening unrealized gain (loss) on contracts settled during the year		**11,959**		(7,414)
Unrealized (gain) during the period on contracts outstanding at the end of the year		**(11,096)**		(5,688)
(Gain) on derivative instruments for the year	**$**	**(4,526)**	$	(2,477)

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 associated derivative instruments are US $65.00 per barrel to US $85.00 per barrel dated Brent call spreads settling in 2010 and 2011.

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. For the year ended December 31, 2009, no amounts were due to the vendor pursuant to this arrangement.

14. CASH FLOW INFORMATION

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

		2009		2008
Accounts receivable	$	**6,743**	$	(3,901)
Crude oil inventory		**6,932**		(1,134)
Prepaid expenses and other		**3,555**		(4,182)
Accounts payable and accrued liabilities and income taxes payable		**(96,790)**		106,323
Foreign exchange		**1,147**		(916)
Changes in non-cash working capital		**(78,413)**		96,190
Changes in non-cash operating working capital	$	**(76,782)**	$	96,369
Changes in non-cash investing working capital		**(1,631)**		(179)
Changes in non-cash working capital	$	**(78,413)**	$	96,190

15. SEGMENTED INFORMATION

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

		2009		2008
Petroleum and natural gas revenue				
Canada	$	**152,087**	$	307,793
France		**203,142**		318,320
Netherlands		**68,087**		114,656
Australia		**216,435**		261,136
Ireland		**-**		-
	$	**639,751**	$	1,001,905
Net earnings				
Canada	$	**25,635**	$	62,905
France		**69,497**		53,857
Netherlands		**21,319**		31,132
Australia		**73,380**		81,295
Ireland		**(4,333)**		-
	$	**185,498**	$	229,189
Capital expenditures				
Canada	$	**75,973**	$	103,725
France		**62,457**		53,905
Netherlands		**26,338**		13,019
Australia		**6,739**		62,653
Ireland		**182,695**		-
	$	**354,202**	$	233,302
Total assets				
Canada	$	**711,435**	$	779,634
France		**575,426**		587,979
Netherlands		**180,803**		136,403
Australia		**250,780**		294,343
Ireland		**366,232**		-
	$	**2,084,676**	$	1,798,359

16. LONG-TERM INVESTMENTS

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

		2009		2008
Portfolio investments, at fair value	$	**4,342**	$	4,579
Investment in Verenex, equity method (fair value - $nil, 2008 - $128.5 - million)		**-**		59,173
	$	**4,342**	$	63,752

In 2009, the Trust sold its equity ownership interest in Verenex (see Note 4).

17. COMMITMENTS

The Trust has the following future commitments associated with its operating leases as at December 31, 2009:

	2010	2011	2012	2013	2014	Thereafter	Total
Payments by period	$4,439	$5,864	$6,845	$6,845	$6,845	$52,366	$83,204

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

18. COMPONENTS OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2009 and December 31, 2008 was comprised solely of monies on deposit with banks.

19. 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 in relation to these expenditures, the Trust will evaluate its ability to finance any excess with debt, an issuance of equity or by reducing some or all categories of expenditures to ensure that total expenditures do not exceed available funds.

As a part of the management of capital which the Trust defines as net debt and unitholders' capital, Vermilion 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, an issuance of equity and the utilization of excess fund flows from operations to reduce outstanding indebtedness.

19. CAPITAL DISCLOSURES (Continued)

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

		2009		2008
Long-term debt	$	**159,723**	$	197,651
Current liabilities		**217,563**		250,275
Current assets		**(256,886)**		(240,173)
Net debt [1]	$	**120,400**	$	207,753
Cash flows from operating activities	$	**230,316**	$	660,135
Changes in non-cash operating working capital		**76,782**		(96,369)
Asset retirement costs incurred		**10,139**		10,200
Fund flows from operations [2]	$	**317,237**	$	573,966
Ratio of net debt to fund flows from operations ([1] ÷ [2])		**0.4**		0.4

For the periods presented here, the ratio of net debt to fund flows from operations was 0.4. The 2009 year end figure of 0.4 reflects the sale of Verenex and the equity offering which closed in the fourth quarter of 2009. As a result of expected capital spending associated with the acquisition of Corrib (see note 4), the Trust expects that its ratio of net debt to fund flows from operations will increase to within Vermilion's target range.

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.

20. FINANCIAL INSTRUMENTS

The following table summarizes information relating to Vermilion's financial instruments as at December 31, 2009 and December 31, 2008:

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:				Fair Value Measurement Hierarchy
					Dec 31, 2009		Dec 31, 2008	
Cash	Cash and cash equivalents	HFT-B	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	$	**99,066**	$	67,231	Level 1
Short-term investments	Short-term investments	HFT-A	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	$	**15,895**	$	9,491	Level 1
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	$	**117,051**	$	123,794	Not applicable
Derivative assets	Derivative instruments	HFT-B	Loss (gain) on derivative instruments	$	**16,113**	$	15,204	Level 2
Derivative liabilities	Derivative instruments	HFT-B	Loss (gain) on derivative instruments	$	**(1,772)**	$	-	Level 2
Reclamation fund investments	Reclamation fund	HFT-A	Other income or expense	$	**69,003**	$	63,399	Level 1
Portfolio investments	Long-term investments [1]	HFT-A	Other income or expense	$	**4,342**	$	4,579	Level 1
Payables	Accounts payable and accrued liabilities. Distributions payable to unitholders	OTH	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	$	**(212,742)**	$	(192,652)	Not applicable
Long-term debt	Long-term debt	OTH	Interest	$	**(159,723)**	$	(197,651)	Not applicable
Long-term debt	Amount due pursuant to acquisition	OTH	None	$	**(111,402)**		-	Not applicable

[1] See note 16 for a reconciliation of the long-term investments account

20. 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.

Level 1– Fair value measurement is determined by reference to unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2– Fair value measurement is determined based on inputs other than unadjusted quoted prices that are observable, either directly or indirectly.

Level 3– Fair value measurement is based on inputs for the asset or liability that are not based on observable market data.

Determination of Fair Values

The level in the fair value hierarchy into which the fair value measurements are categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. Fair values for derivative assets and derivative liabilities are determined using option pricing models incorporating future prices 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. The amount due pursuant to acquisition was determined by calculating the expected value of the future payment due to the vendor based on management's best estimates associated with the timing of first commercial gas and discounting the resulting amount. The discount rate used to present value this obligation was 8%, which is the Trust's best estimate of the interest rate that would result from an arm's length borrowing transaction associated with the purchase of these assets.

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.

20. FINANCIAL INSTRUMENTS (Continued)

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, 2009, the Trust held portfolio investments in equity securities with a fair value of $4.3 million (2008 - $4.6 million). The fair value of these instruments is exposed to changes in the prices of the underlying equities.

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

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

Vermilion does not consider there to be a present risk in relation to funds available 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, 2009, Vermilion's maximum exposure to receivable credit risk was $133.2 million (2008 – $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. In addition, at December 31, 2009, Vermilion had $99.1 million in cash on deposit at banks and $15.9 million in short-term guaranteed investment certificates (2008 - $67.2 million and $9.5 million, respectively).

As at the balance sheet date, the amount of financial assets that were past due or impaired was not material and no amounts have been provided for as an allowance against potentially uncollectable amounts.

20. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk:

The following table summarizes Vermilion's undiscounted financial liabilities and their contractual maturities as at December 31, 2009 and 2008:

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
December 31, 2009:				
Non-derivative financial liabilities	117,911	84,911	9,920	302,691
December 31, 2008:				
Non-derivative financial liabilities	123,718	63,805	5,129	197,651

The Trust's derivative liabilities settle on a monthly basis.

Market risk:

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 years ended December 31, 2009 and 2008 given changes in the relevant risk variables that the Trust considered were reasonably possible at the balance sheet date. 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.

Year ended December 31, 2009:

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 5% over the relevant closing rates on December 31, 2009.	$	(3,283)
	Decrease in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates on December 31, 2009.	$	3,283
Currency risk – US $ to Canadian	**Increase** in strength of the Canadian dollar against the US $ by 5% over the relevant closing rates on December 31, 2009.	$	1,495
	Decrease in strength of the Canadian dollar against the US $ by 5% over the relevant closing rates on December 31, 2009.	$	(1,495)
Currency risk – AUD to Canadian	**Increase** in strength of the Canadian dollar against the AUD $ by 5% over the relevant closing rates on December 31, 2009.	$	(1,190)
	Decrease in strength of the Canadian dollar against the AUD $ by 5% over the relevant closing rates on December 31, 2009.	$	1,190
Commodity price risk	**Increase** in relevant oil reference price at December 31, 2009 by US $5.00/bbl within option pricing models used to determine the fair value of derivative positions.	$	1,788
	Decrease in relevant oil reference price at December 31, 2009 by US $5.00/bbl within option pricing models used to determine the fair value of derivative positions.	$	(2,264)

20. FINANCIAL INSTRUMENTS (Continued)

Year ended December 31, 2008:

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 years ended December 31, 2009 and 2008.

21. ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

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

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 currently assessing the potential impact and whether or not it will elect to adopt these standards in advance of the transition to IFRS.

22. 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 of America. 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

Timothy R. Marchant [3, 4, 5]
Calgary, Alberta

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 GENERAL MEETING

May 7, 2010 at 10:00 a.m.
The Ballroom
Metropolitan Centre
333 – 4th Avenue S.W.
Calgary, Alberta

OFFICERS AND 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

Cameron A. Hercus, MSc
Director Exploitation and New Growth

Dean N. Morrison, CFA
Director Investor Relations

Robert (Bob) J. Engbloom, LL.B
Corporate Secretary

EUROPE
Peter Sider, P.Eng.
Vice President European Operations

David Burghardt, P.Eng.
Director Exploitation

Scott Ferguson, P.Eng.
Director European Operations

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

AUDITORS
Deloitte & Touche LLP
Calgary, Alberta

BANKERS
The Toronto-Dominion Bank
Calgary, Alberta

Bank of Montreal
Calgary, Alberta

BNP Paribas (Canada)
Toronto, Ontario

Royal Bank of Canada
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

Citibank N.A., Canadian Branch
Calgary, Alberta

EVALUATION ENGINEERS
GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL
Macleod Dixon LLP
Calgary, Alberta

TRANSFER AGENT
Computershare Trust Company of Canada

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

INVESTOR RELATIONS CONTACT
Paul L. Beique
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