

MANAGEMENT'S REPORT

To the Shareholders of Vero Energy Inc.

Management's Responsibility for Consolidated Financial Statements:

The accompanying financial statements of Vero Energy Inc. and all of the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

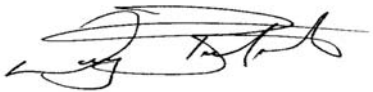
The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those methods it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management's Assessment of Internal Controls over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. Management has established systems of internal controls, which are designed to provide reasonable assurance the Company's assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information. Internal control systems, no matter how well designed have inherent limitations. Therefore, even those systems that have been determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. It exercises its responsibilities primarily through the Audit Committee, which is comprised of independent, non-management directors. The Audit Committee has reviewed the financial statements with both management and the auditors. This has been reported to the Board of Directors which has approved the financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.



Douglas J. Bartole
President and Chief Executive Officer



Gerald N. Gilewicz, C.M.A.
Vice-President, Finance and
Chief Financial Officer

Calgary, Canada
March 6, 2009

VERO ENERGY INC.

Consolidated Statements of Operations, Comprehensive Income and Retained Earnings

(in thousands of Canadian dollars, except per share data)

	2008	2007
REVENUE		
Production revenue	138,962	82,063
Realized (loss) gain on risk management activities	(1,107)	1,344
	137,855	83,407
Royalties	(35,601)	(23,003)
Interest and other	13	-
	102,267	60,404
EXPENSES		
Operating	16,704	11,189
Transportation	2,942	2,348
General and administrative	4,461	3,132
Stock based compensation (Note 9(f))	2,575	1,449
Interest and bank charges	2,559	2,451
Depletion, depreciation and accretion	40,917	36,052
	70,158	56,621
INCOME BEFORE INCOME TAXES	32,109	3,783
INCOME TAXES (Note 8)		
Future	10,240	619
	10,240	619
NET EARNINGS AND COMPREHENSIVE INCOME	21,869	3,164
RETAINED EARNINGS, BEGINNING OF PERIOD	4,864	1,700
Repurchase of shares (Note 9(g))	(882)	-
RETAINED EARNINGS, END OF PERIOD	25,851	4,864
NET EARNINGS PER SHARE AND COMPREHENSIVE INCOME PER SHARE (Note 11)		
Basic	0.67	0.11
Diluted	0.67	0.11

VERO ENERGY INC.**Consolidated Balance Sheets****As at December 31,***(in thousands of Canadian dollars)*

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT		
Accounts receivable	29,218	16,767
Prepaid expenses and deposits	5,294	3,523
Loans receivable (Note 15)	350	-
	<u>34,862</u>	<u>20,290</u>
Property and equipment (Note 5)	297,697	171,727
Goodwill (Note 4)	19,913	15,034
	<u>352,472</u>	<u>207,051</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	63,354	36,051
Bank debt (Note 6)	75,419	46,013
	<u>138,773</u>	<u>82,064</u>
Asset retirement obligations (Note 7)	5,570	2,641
Future income taxes (Note 8)	17,416	10,812
	<u>161,759</u>	<u>95,517</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	160,103	103,077
Contributed surplus (Note 10)	4,759	3,593
Retained Earnings	25,851	4,864
	<u>190,713</u>	<u>111,534</u>
	<u>352,472</u>	<u>207,051</u>

Commitments (Note 12)
See accompanying notes.

APPROVED BY THE BOARD

Paul R. Baay, Director



Douglas J. Bartole, Director

VERO ENERGY INC.

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	2008	2007
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	21,869	3,164
Adjustments for:		
Depletion, depreciation and accretion	40,917	36,052
Stock based compensation	2,575	1,449
Future income taxes	10,240	619
	75,601	41,284
Asset retirement costs incurred	(222)	(43)
Changes in non-cash working capital (Note 13(a))	659	(7,140)
	76,038	34,101
FINANCING		
Increase in bank debt	18,417	10,362
Proceeds from private placement, net of share issue costs (Note 9(b))	16,759	17,935
Repurchase of shares (Note 9(g))	(2,597)	-
Loans to officers/director (Note 15)	(350)	-
Proceeds from stock option exercises (note 9(e))	4,378	43
	36,607	28,340
INVESTING		
Corporate acquisitions (Note 4)	(2,816)	-
Additions to petroleum and natural gas properties	(106,308)	(68,932)
Purchase of petroleum and natural gas assets	(19,537)	(2,478)
Disposals of petroleum and natural gas properties	15	-
Additions to administrative assets	(39)	(43)
Changes in non-cash working capital (Note 13(a))	16,040	9,012
	(112,645)	(62,441)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	-	-

Supplementary cash flow information (Note 13(b))

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)*

1. NATURE OF OPERATIONS, ORGANIZATION AND BASIS OF PRESENTATION

Vero Energy Inc. (“Vero or “the Company”) was incorporated on September 23, 2005 and commenced oil and gas operations on November 2, 2005 after the closing of a Plan of Arrangement between Vero, True Energy Inc. (“True”), and TKE Energy Trust (“TKE”). Under the Arrangement Vero acquired certain producing and non-producing oil and gas assets.

On April 15, 2008 Vero acquired all of the outstanding shares of a private company, Dorian Energy Inc. (“Dorian”) (Note 4). On May 31, 2008, Vero amalgamated with Dorian. Effective May 21, 2008 Vero acquired all of the outstanding shares of another private company, FX Energy Ltd. (Note 4), which is currently operated as a wholly owned subsidiary of Vero.

On July 31, 2008, Vero acquired certain producing and non-producing assets from an industry partner for \$19,537. This acquisition carried an effective date of July 1, 2008.

On November 10, 2008 Vero acquired all of the outstanding shares of a private company, Revolve Energy Inc. (“Revolve”) (Note 4). Effective November 10, 2008 all of the assets and liabilities of Revolve were transferred to Vero pursuant to a wind-up. On December 11, 2008 the corporate entity of Revolve was dissolved.

Vero is engaged in the exploration, development and production of crude oil and natural gas primarily in the province of Alberta.

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)*

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Financial instruments

Financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and bank indebtedness. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. There are no significant differences between the carrying value of these financial instruments and their estimated fair value.

b) Cash and cash equivalents

The Company considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents. Bank borrowings are considered to be financing activities.

c) Petroleum and natural gas properties and facilities

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells, well equipment, flow-line and facility costs, geological and geophysical expenses, asset retirement costs, and overhead expenses directly related to exploration and development activities.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would result in a greater than 20% change in the depletion and depreciation rate.

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*d) Depletion and depreciation*

Petroleum and natural gas properties and facilities costs, together with estimated future capital costs associated with proved reserves, less estimated salvage values and costs related to unproven properties, are depleted using the unit-of-production method based on estimated proven reserves of petroleum and natural gas before the deduction of royalties as determined by independent petroleum engineers. For purposes of this calculation proven natural gas reserves and production are converted to equivalent volumes of crude petroleum based on the approximate energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of crude oil. Costs of acquiring and evaluating unproved properties are initially excluded from the calculation and are periodically assessed for impairment. When unproved properties are considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Administrative assets are carried at cost and depreciated on a declining basis at an annual rate of 20% to 30% depending on the asset category.

e) Ceiling Test

The Company at least annually assesses the carrying value of its oil and gas properties to determine if impairment has occurred. The Company applies a two-stage ceiling test to capitalized costs to ensure that such costs do not exceed the undiscounted future cash flows from production of proved reserves. Undiscounted future cash flows are calculated based on an independent petroleum engineers estimate of forward indexed prices applied to estimated production of proved reserves plus the cost of undeveloped properties that were excluded from the depletion calculation, less estimated future operating costs, royalties net of applicable tax credits, future capital development costs and abandonment costs. When the carrying amount of a cost center is not recoverable the second stage of the process will determine the impairment whereby the cost center would be written down to its fair value. The second stage requires the calculation of discounted cash flows from proved plus probable reserves using a risk-free interest rate plus the cost of undeveloped land, net of any impairment. The fair value is estimated using generally accepted present value techniques, which incorporate risk and other uncertainties when determining expected cash flows.

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*f) Goodwill*

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net identifiable assets received. Goodwill is stated at cost less any impairment and is not amortized. Goodwill is assessed for impairment annually at year-end or more frequently if events or changes in circumstances indicate that the asset may be impaired. To assess impairment, the fair value of the reporting unit is determined and compared to the carrying value of the reporting unit. If the fair value is less than the carrying value, then a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the reporting unit's assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impaired amount. Impairment is charged to income in the period in which it occurs.

g) Asset retirement obligations

The fair value of obligations associated with the retirement, removal and site restoration of long-lived assets are recorded in the period in which the liability is incurred and a reasonable estimate of fair value can be made. The obligations recognized are estimates of statutory, contractual or legal obligations that the Company will reasonably be expected to incur and then discounted to their present value using the Company's credit adjusted risk-free interest rate. The corresponding amount increases the carrying amount of the related asset. The liability is accreted over time for changes in the fair value of the liability through charges to accretion expense. The provision will be revised for the effect of any changes to timing related to cash flow or undiscounted abandonment costs. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depreciation and depletion of the underlying asset. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

h) Future income taxes

The Company follows the liability method of accounting for income taxes. Under this method the Company records future income tax assets and liabilities based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) measured using the substantively enacted tax rates and laws expected to apply when these differences reverse. The effect of a change in substantively enacted income tax rates on accumulated future income tax assets and liabilities is recognized in income in the period that the change occurs.

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*i) Revenue recognition*

Revenue from the sale of natural gas, natural gas liquids and crude oil is recognized based on volumes delivered at contractual delivery points when title passes from the Company to its customers. Costs associated with the operating of wells and facilities, delivery of the commodity, transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

j) Transportation costs

Costs paid by Vero for the transportation of natural gas, crude oil and natural gas liquids are recognized when the product is delivered and the services provided.

k) Stock-based compensation plan

The Company has a stock-based compensation plan enabling officers, directors, employees and certain consultants to purchase common shares at exercise prices equal to the market price on the date the option is granted. Stock option awards are accounted for based on the fair value method of accounting (Note 9(e)). Under this method, stock-based compensation is recorded as an expense over the vesting period of the option, with a corresponding increase in contributed surplus. Stock-based compensation expense is based on the estimated fair value of the related stock option at the time of the grant using the Black-Scholes option model. When stock options are exercised, the consideration paid to the Company, along with amounts previously credited to contributed surplus, is credited to share capital. Forfeitures are accounted for as they occur and result in a reduction of compensation expense.

l) Measurement uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Recorded amounts for depletion and depreciation of petroleum and natural gas properties and equipment are based on estimates. The ceiling test and impairment calculations are based on estimates of oil and gas reserves, future costs required to develop those reserves and the fair value of unproved properties. By their nature, these estimates are subject to measurement

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*l) Measurement uncertainty (continued)*

uncertainty and the effect on the financial statements of changes of estimates in future periods could be significant.

The value of the asset retirement obligations was based on Vero's net ownership interests in all wells and facilities and depends on estimates of current market interest rates and future restoration and reclamation expenditures. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes of estimates in future periods could be significant.

The calculation of future income tax is based on assumptions, which are subject to uncertainty as to timing as well as the tax rates at which temporary differences are expected to reverse. In addition, the measurement of Vero's income tax liability and tax pools requires interpretation of complex laws and regulations. All tax filings are subject to audit and reassessment, potentially several years after the initial filing. Accordingly, actual income tax assets and liabilities may differ significantly from the amounts initially estimated.

The Black-Scholes option valuation model was developed for use in estimating the fair value of options, which were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

m) Joint venture activities

A significant portion of the Company's exploration, development and production activities are conducted with joint venture partners. These financial statements reflect only the Company's proportionate interest in such activities.

n) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. Diluted per share amounts reflect the exercise or conversion of potentially dilutive securities or other contracts to issue shares at the later of the grant of such securities or the beginning of the period. The Company computes diluted earnings per share based on the treasury-stock method to determine the dilutive effect of securities or other contracts. This method assumes that any proceeds obtained on the exercise of outstanding, in-the-money stock options, plus unrecognized stock compensation costs, would be used to purchase common shares of the Company at their average market price during the period.

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*o) Hedging*

The Company may periodically enter into forward contracts to reduce its exposure to price fluctuations on a portion of its oil and natural gas production. The contracts are not used for speculative trading purposes. Payments or receipts on financial instruments that are designated and effective as hedges are recognized in income concurrently with the hedged transaction. Any financial instrument that does not constitute a hedge is recorded at fair value in the balance sheet with any gain or loss reflected in the statement of operations. Gains or losses on physical and qualifying hedge contracts are reported as adjustments to commodity revenues in the related production month. At December 31, 2008 the Company did not have any hedges outstanding.

p) Flow through shares

The Company finances a portion of its exploration program through the issuance of flow-through shares. Under the terms of the flow-through share agreements, and as provided for under the Income Tax Act, the tax attributes of qualifying exploration costs incurred by the Company are renounced to subscribers. To recognize the foregone tax benefits to the Company, the amount for which the shares are issued is reduced by the tax effect of the tax benefits renounced to subscribers at the time the renunciation documents are filed with the tax authorities.

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted the following Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections:

- Section 1535, “Capital Disclosures”. This section establishes standards for disclosing information about an entity’s objectives, policies and processes for how it manages its capital. A company must also disclose qualitative data about what the entity regards as capital; and whether the company has complied with any capital requirements and if not, the consequences of such non-compliance. The Company adopted this standard effective January 1, 2008 (see Note 16).
- Section 3862, “Financial Instruments – Disclosures”. This section describes the required disclosures to evaluate the significance of financial instruments for the entity’s financial position and performance as well as the nature and extent of risks arising from both recognized and unrecognized financial instruments to which the entity is exposed and how the entity manages those risks. The Company adopted this standard effective January 1, 2008 (see Note 14).

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)*

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

- Section 3863, “Financial Instruments – Presentation”. This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of the standards described in Section 3861, “Financial Instruments – Disclosure and Presentation”. The Company adopted this standard effective January 1, 2008 (see Note 14).

Recent accounting pronouncements issued and not yet adopted

The following accounting standards will apply to future fiscal periods:

- In January 2006, the CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards (“IFRS”) effective January 1, 2011. The Corporation continues to monitor, assess and develop its implementation plan for the convergence of Canadian GAAP and IFRS.
- In February 2008, the AcSB issued Handbook Section 3064, Goodwill and Intangible Assets and amended Section 1000, Financial Statement Concepts clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The standard is effective for fiscal years beginning on or after October 1, 2008 and early adoption is permitted. Vero is currently evaluating the impact this section will have on our results of operations and financial position.

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)***4. CORPORATE ACQUISITIONS**

a) Acquisition of Dorian Energy Inc.

Effective April 15, 2008 Vero acquired all of the outstanding common shares of Dorian Energy Inc. (“Dorian”). Dorian shareholders received 0.294 of a Vero common share for each Dorian share held. A total of 1,835 Vero common shares were issued. The price ascribed to each common share of \$8.22 was based on the average trading price of Vero common shares on the five days prior, the day of, and the five days following the date the purchase was entered into. The operating results and corresponding cash flow and earnings related to the acquisition were included in the Company’s consolidated financial statements effective April 16, 2008. The acquisition was accounted for using the purchase method and the purchase price was allocated based on fair values as follows:

Consideration paid:	
Issuance of 1,835 common shares (Note 9(c))	15,087
Transaction costs	165
	15,252
Allocation of purchase price:	
Current assets	3,594
Current liabilities	(2,763)
Risk management on acquired contract	(381)
Debt assumed	(2,200)
	(1,750)
Property, plant and equipment	13,380
Goodwill	4,879
Asset retirement obligations	(210)
Future income taxes	(1,047)
	15,252

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)***4. CORPORATE ACQUISITIONS (continued)**

b) Acquisition of FX Energy Ltd.

Effective May 21, 2008 Vero acquired all of the outstanding common shares of FX Energy Ltd. ("FX"). FX shareholders received \$0.25043 per common share outstanding. The operating results and corresponding cash flow and earnings related to the acquisition were included in the Company's consolidated financial statements effective May 22, 2008. The acquisition was accounted for using the purchase method and the purchase price was allocated based on fair values as follows:

Consideration paid:	
Cash paid to FX shareholders	2,374
Transaction costs	67
	2,441
Allocation of purchase price:	
Current assets	366
Current liabilities	(107)
Debt assumed	(1,595)
	(1,336)
Property, plant and equipment	2,050
Asset retirement obligations	(41)
Future tax benefit	1,768
	2,441

c) Acquisition of Revolve Energy Inc.

Effective November 10, 2008 Vero acquired all of the outstanding common shares of Revolve Energy Inc. ("Revolve"). Revolve shareholders received 0.135 of a Vero common share for each Revolve share held. A total of 3,816 Vero common shares were issued. The price ascribed to each common share of \$6.20 was based on the average trading price of Vero common shares on the five days prior, the day of, and the five days following the date the purchase was entered into. The operating results and corresponding cash flow and earnings related to the acquisition were included in the Company's consolidated financial statements effective November 11, 2008:

Consideration paid:	
Issuance of 3,816 common shares (Note 9(d))	23,659
Transaction costs	210
	23,869
Allocation of purchase price:	
Current assets	4,996
Current liabilities	(2,087)
Debt assumed	(7,194)
	(4,285)
Property, plant and equipment	23,599
Asset retirement obligations	(911)
Future tax benefit	5,466
	23,869

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2008 and 2007
(in thousands, except per share data)

5. PROPERTY AND EQUIPMENT

	December 31, 2008		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	396,785	(99,246)	297,539
Administrative assets	284	(126)	158
	397,069	(99,372)	297,697

	December 31, 2007		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	230,277	(58,677)	171,600
Administrative assets	212	(85)	127
	230,489	(58,762)	171,727

Costs of acquiring unproved properties and salvage values in the aggregate of \$24,428 were excluded from the depletion calculation as at December 31, 2008 (2007 - \$14,135). Management performed an impairment test and determined that the carrying values of unproved properties were not impaired as at December 31, 2008. Future development costs on proved undeveloped reserves of \$59,931 (2007 - \$16,836) are included in the depletion calculation.

During 2008, the Company capitalized \$688 (2007 - \$524) in salaries and wages directly related to exploration and development activities.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2008 and 2007

(in thousands, except per share data)

5. PROPERTY AND EQUIPMENT (continued)

The Company performed a ceiling test calculation as at December 31, 2008 and December 31, 2007 to assess the recoverable value of petroleum and natural gas properties and equipment. The table below summarizes the benchmark prices for the next ten years used by the independent reserve evaluators in preparing the Company's reserve report. Based on the expected future commodity prices no write-down was required for the year ended December 31, 2008.

	WTI Cushing Oklahoma (\$US/bbl)	Edmonton Par 40 d API (\$Cdn/bbl)	Alberta AECO-C (\$Cdn/mmbtu)	Natural Gas Liquids (Butanes) (\$Cdn/bbl)
2009	50.89	67.24	7.20	51.65
2010	60.82	80.48	7.89	61.59
2011	65.91	87.85	8.21	67.24
2012	78.59	93.92	8.72	71.93
2013	92.01	99.81	9.24	76.44
2014	93.85	101.82	9.44	77.99
2015	95.72	103.88	9.64	79.57
2016	97.64	105.97	9.83	81.15
2017	99.59	108.06	10.04	82.75
2018	101.58	110.26	10.24	84.44

The annual escalation rate used after 2017 is 2.0%.

6. BANK DEBT

The Company has a \$100,000 (2007 - \$70,000) revolving credit facility with a Canadian Chartered Bank. Interest on the outstanding advances is calculated using a pricing grid that escalates as the net debt to cash flow ratio increases. Any unutilized portion of the credit facility is subject to a standby fee. The authorized limit is subject to a semi-annual, borrowing base review by the bank. The facility is available to the Company at their option until May 31, 2009. Non-scheduled, interim reviews may occur at the request of the Company with a view to upgrading the borrowing base as new reserves are added through Vero's drilling program or in the event of a significant acquisition. The facility is secured by a \$200,000 (2007 - \$125,000) floating charge debenture over the assets of the Company.

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)***7. ASSET RETIREMENT OBLIGATIONS**

The Company's asset retirement obligations result from ownership interests in petroleum and natural gas assets, including well sites, gathering systems, batteries and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at December 31, 2008 to be \$13,106 (2007 - \$6,455), which will be incurred at various times between 2009 and 2023. The fair value of the asset retirement obligations incurred in the period ended December 31, 2008 was calculated using an average credit-adjusted risk free rate of 8.0% (2007 - 8.3%) and an average inflation factor of 1.7% (2007 - 2.1%). Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at December 31, 2008, no funds have been set aside to settle these obligations. Changes to asset retirement obligations during the period were as follows:

	2008	2007
Asset retirement obligations at beginning of period	2,641	1,785
Liabilities acquired on corporate acquisitions (Note 4)	1,162	-
Liabilities incurred during the period	1,461	755
Liabilities settled during the period	(222)	(43)
Change in estimated future cash flows	220	(39)
Accretion	308	183
Asset retirement obligations at end of period	5,570	2,641

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)***8. INCOME TAXES**

The provision for income tax reflects an effective rate which differs from the expected, statutory, federal and provincial tax rates. Differences for the years ended December 31, 2008 and 2007 are accounted for as follows:

	<u>2008</u>	<u>2007</u>
Income before income taxes	<u>32,109</u>	3,783
Expected income tax (benefit) expense at the statutory rate of 29.5% (2007 – 32.1%)	9,472	1,215
Tax effect of non-deductible and non-taxable amounts related to:		
Stock-based compensation expense and other non-Deductible amounts	784	528
Change in tax rates	-	(1,630)
Reconcile book to actual on filing tax returns	17	499
Other	(33)	7
Total income tax provision	10,240	619

The income tax provision is comprised of:

	<u>2008</u>	<u>2007</u>
Future income taxes	10,240	619

The future income tax liability is comprised of the following:

	<u>2008</u>	<u>2007</u>
Future income tax liabilities:		
Temporary differences relating to capital assets	20,643	12,385
Future income tax assets:		
Asset retirement obligations	(1,392)	(660)
Loss carryforwards	(970)	-
Financing costs and other	(861)	(543)
Attributed Canadian Royalty Income	(4)	(370)
	(3,227)	(1,573)
Net future income tax liability	17,416	10,812

As at December 31, 2008, Vero had \$228,451 (2007 - \$130,670) of tax pools available for deduction in future years. Included in this amount is \$3,877 (2007 – nil) of non-capital losses, which expire at various times between 2011 and 2018.

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9. SHARE CAPITAL

	Shares (000's)	Amount
Authorized		
Unlimited number of voting common shares		
Unlimited number of first preferred shares		
Issued		
<i>Common shares</i>		
Balance December 31, 2006	25,907	84,710
Private placement, net of share issue costs (a)	3,000	17,935
Stock options exercised	8	58
Adjustment for tax benefits from share issue costs	-	374
Balance December 31, 2007	28,915	103,077
Private placement, net of share issue costs (b)	1,940	16,759
Issued on corporate acquisition (c)	1,835	15,087
Issued on corporate acquisition (d)	3,816	23,659
Exercise of stock options (e)	871	5,787
Normal course issuer bid (g)	(408)	(1,715)
Adjustment for tax benefits from share issue costs	-	356
Adjustment for tax cost of flow-through shares (a)	-	(2,907)
Total share capital at December 31, 2008	36,969	160,103

a) Private Placement

On April 5, 2007 the Company closed a private placement for the issuance of 1,500 Common Shares at a price of \$5.55 per share and 1,500 Flow-Through Common Shares at a price of \$7.25 per share. The net proceeds of issuance of \$17,935 were comprised of gross proceeds of \$19,200 less expenses of the issue of \$1,265. The tax effect of \$2,907 for the tax benefits renounced to subscribers in respect of the flow-through shares was recognized in 2008, the period when the renouncement documents were filed with the taxation authorities. Using a combination of the regular, and the "look-back" flow-through Share provisions of the Income Tax Act, the Company was required to incur eligible expenditures in the amount of \$10,875 prior to December 31, 2008 (Note 12(e)).

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)*

9. SHARE CAPITAL (continued)

b) Private Placement – February 28, 2008

On February 28, 2008 the Company closed a private placement for the issuance of 1,940 flow-through Common Shares at a price of \$9.25 per share. The net proceeds of issuance of \$16,759 were comprised of gross proceeds of \$17,945 less expenses of the issue of \$1,186. The tax effect of the tax deductions renounced to subscribers in respect of the flow-through shares will be recognized in the period when the renouncement documents are filed with the taxation authorities. Using a combination of the regular, and the “look-back” flow-through share provisions of the Income Tax Act, the Company is required to incur eligible expenditures in the amount of \$17,945 prior to December 31, 2009 (Note 12(e)).

c) Acquisition of Dorian Energy Inc.

On April 15, 2008 the Vero acquired all of the outstanding shares of a private company. Upon closing of the acquisition, 1,835 common shares were issued at a deemed value of \$15,087 (Note 4(a)).

d) Acquisition of Revolve Energy Inc.

On November 10, 2008 the Vero acquired all of the outstanding shares of a private company. Upon closing of the acquisition, 3,816 common shares were issued at a deemed value of \$23,659 (Note 4(c)) or \$6.20 per share.

e) Stock options

The Company has a stock option plan under which options to purchase common shares may be granted to officers, directors, employees and consultants. The Board has approved a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. As at December 31, 2008 there were 3,697 (2007 – 2,891) shares reserved for issuance under the plan. All options awarded have a maximum term of five years and vest in equal one-third increments on each anniversary of the grant.

During the year ended December 31, 2008, 871 (2007 – 8) stock options were exercised. \$5,787 (2007 - \$58) was credited to share capital, which was made up of \$4,378 (2007 - \$43) in cash proceeds and \$1,409 (2007 - \$15) for the reversal of amounts previously credited to contributed surplus (Note 10).

Notes to the Consolidated Financial Statements
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9. SHARE CAPITAL (continued)

As at December 31, the following stock options were outstanding:

	2008		2007	
	Stock Options	Weighted Average Exercise Price \$	Stock Options	Weighted Average Exercise Price \$
Outstanding, beginning of year	2,434	5.18	2,321	5.14
Granted	1,528	8.16	140	5.81
Exercised	(871)	5.03	(8)	5.35
Forfeited	(6)	5.90	(19)	5.39
Outstanding, end of year	3,085	6.69	2,434	5.18
Exercisable, end of year	719		1,299	

Exercise Price	Options Outstanding					
	December 31, 2008			December 31, 2007		
	Number of Options Outstanding	Weighted Average Exercise Price \$	Weighted Average Years to Expiry	Number of Options Outstanding	Weighted Average Exercise Price \$	Weighted Average Years to Expiry
\$4.87 - 5.61	1,212	4.97	2.1	1,909	4.93	3.1
\$5.90 - 7.71	1,315	7.14	4.0	525	6.08	3.5
\$8.34 - 10.80	558	9.41	4.5	-	-	-
	3,085	6.69	3.4	2,434	5.18	3.2

f) Stock-based compensation

The Company accounts for its stock options granted to employees, officers, and directors using the fair value method. In accordance with the Company's incentive stock plan, these options have an exercise price equal to the fair value of the security at the date of grant. The fair value of each option granted is estimated on the date of grant using a modified Black-Scholes option-pricing model. The following assumptions have been used:

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)***9. SHARE CAPITAL (continued)**

	2008	2007
Risk free rate (%)	3.2	4.1
Expected life (years)	5	5
Expected volatility (%)	70	53
Expected dividends	-	-

For the period ended December 31, 2008, 1,528 (2007 – 140) stock options were granted to employees, officers and directors. The option grants during the period had a weighted average fair value expense attributed to them of \$4.93 (2007 - \$2.94) per share. \$2,575 (2007 - \$1,449) was recorded as stock compensation expense with respect to all options outstanding, with a corresponding credit to contributed surplus (Note 10).

g) Normal Course Issuer Bid

In August of 2007, the Toronto Stock Exchange approved the Company's application to initiate a Normal Course Issuer Bid ("Bid"). The Bid's are for periods of one year at a time and are renewable upon expiration. In August of 2008 the Company renewed its Bid for an additional year. Under each Bid, Vero is entitled to purchase up to 5% of its outstanding common shares. During the period ended December 31, 2008, the Company purchased and subsequently cancelled 408 common shares pursuant to its Normal Course Issuer Bid. The aggregate cost of the purchases was \$2,597 of which \$1,715 was charged to share capital based on the average book value per share as of the date of repurchase, and the balance of \$882 was charged to retained earnings. The average per share cost of the repurchase was \$6.36.

10. CONTRIBUTED SURPLUS

The following table reconciles the Company's contributed surplus:

	2008	2007
Balance at January 1	3,593	2,159
Stock-based compensation expense	2,575	1,449
Exercise of stock options (Note 9(e))	(1,409)	(15)
Balance at December 31	4,759	3,593

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)***11. PER SHARE AMOUNTS**

The following table summarizes the shares used in calculating net earnings per share as at December 31:

	2008	2007
Weighted average shares outstanding - basic	32,623	28,129
Dilutive stock options outstanding	2,425	2,299
Shares notionally repurchased with proceeds from dilutive stock options and returned to treasury	(2,286)	(2,110)
Weighted average shares outstanding - diluted	32,762	28,318

At December 31, 2008, 660 (2007 – 135) of the issued stock options were excluded from the calculation of diluted weighted average shares outstanding as to include them would be anti-dilutive.

12. COMMITMENTS

In addition to the commitments listed below, the Company has various indemnifications in place in the ordinary course of business, none of which, as assessed by management, are expected to have a significant impact on the Company's financial statements.

a) Transportation costs

The Company has committed to firm-service contracts for the transportation of its natural gas. The amounts below are the minimum cash obligations that the Company must pay under the terms of the contract. The combined minimum future costs as at December 31, were as follows:

	2008	2007
2008	-	209
2009	387	209
2010	374	198
2011	370	194
2012	246	79
2013	13	-
Total minimum payments	1,390	889

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)***12. COMMITMENTS (Continued)***b) Office lease costs*

The Company has committed to future minimum payments under operating leases that cover the rental of office space, a proportionate share of operating costs and office furnishings as follows:

	2008	2007
2008	-	931
2009	1,210	928
2010	1,045	918
2011	650	531
Total minimum payments	2,905	3,308

Included above is the commitment with respect to three leased premises. One is the head office of Vero and the other two are in respect of leased premises acquired pursuant to the corporate acquisitions described in Note 4. The Company has sub-leased both of these premises.

c) Indemnifications

From time to time, the Company may become involved in litigation or have claims sought against it in the normal course of business operations. Management of the Company is not currently aware of any claims or actions that would materially affect the Company's reported financial position or results from operations.

Under the terms of certain agreements and the Company's by-laws the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The Company has no outstanding claims having a potentially material adverse effect on the Company as a whole.

d) Drilling commitments

As at December 31, 2008 Vero was committed to drill or recomplete 8 (6.7 net) wells (2007 – 1 gross (0.8 net)) in Alberta. All of these projects have commencement dates in 2009. These commitments are pursuant to a farm-in agreement with industry partners. The Company expects to satisfy the net portion of this drilling commitment at an estimated cost of \$10,788 (2007 - \$1,920).

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12. COMMITMENTS (CONTINUED)

e) Flow-through shares

Pursuant to the flow-through share private placement entered into on February 28, 2008 (Note 9(b)) the Company was obligated to incur \$17,945 in eligible costs by December 31, 2009. As at December 31, 2008 Vero had \$3,759 remaining on this commitment.

Pursuant to the flow-through share private placement entered into on April 5, 2007 (Note 9(a)), the Company was obligated to incur \$10,875 in eligible costs by December 31, 2008. Vero satisfied this commitment in full during 2007.

13. SUPPLEMENTARY INFORMATION

a) Changes in non-cash working-capital

	2008	2007
Accounts receivable	(12,451)	(1,459)
Prepaid expenses and deposits	(1,771)	(2,434)
Accounts payable and accrued liabilities	27,303	5,765
Corporate acquisition of working capital (Note 4)	3,618	-
Change in non-cash working capital	16,699	1,872
Relating to:		
Investing activities	16,040	(9,012)
Operating activities	659	(7,140)
	16,699	1,872

b) Supplementary cash flow information

	2008	2007
Interest received	13	-
Interest paid	2,405	2,449

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)***14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company holds various forms of financial assets and liabilities. The fair values of financial assets and liabilities and a discussion of the risks associated with these assets and liabilities are presented as follows:

A) Fair Value of Financial Assets and Liabilities

The carrying value of financial instruments, which include accounts receivable, prepaids and deposits, derivative financial instruments, accounts payable and accrued liabilities approximates amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties. The fair value of accounts receivable, deposits, accounts payable and accrued liabilities approximates their carrying amounts due to their short term nature. The fair value of derivative financial instruments is determined by calculating the difference between the contracted price and published forward price curves as at the balance sheet date, and then multiplying this price differential by the contracted commodity volumes. As at December 31, 2008 and 2007 there were no risk management contracts outstanding. Vero's bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The carrying and fair values of the Company's financial instruments as at December 31, 2008 were as follows:

	Carrying Value	Fair Value
<u>Financial Assets</u>		
Held-for-trading:		
Prepaid and deposits	5,294	5,294
Risk management asset	-	-
Loans and receivables:		
Accounts receivable	29,218	29,218
<u>Financial Liabilities</u>		
Other financial liabilities		
Accounts payable and accrued liabilities	63,354	63,354
Bank debt - credit facility	75,419	75,419

As at each reporting period the Company will assess whether a financial asset, other than those classified as held-for-trading is impaired. Any impairment loss will be included in earnings for the period.

Commodity Price Sensitivities

The resource industry, by its nature is subject to rapid and wide ranging fluctuations in its commodity prices. As a result, the Company is exposed to similar fluctuations in its net earnings. The following table summarizes the Company's assessment of the sensitivities on net earnings to commodity price changes while holding all other variables constant. The

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)***14. FINANCIAL INSTRUMENTS (Continued)**

Company believes that a ten percent change in commodity prices is a reasonable measure of volatility. Fluctuations in commodity prices would have resulted in unrealized gains (losses) that would impact net earnings as at December 31, 2008 as follows:

	Favourable 10% change	Unfavourable 10% change
Natural gas price	3,104	(2,822)
Natural gas liquids and crude oil prices	1,265	(1,150)

B) Risks Associated with Financial Assets and Liabilities

The nature of these instruments and the Company's operations expose the Company to commodity price, credit and interest rate risks. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure.

Market risk

Market risks are generally those risks that are outside of the control of the Company. These are: commodity prices, foreign exchange rates and interest rates. The objective of the Company is to mitigate exposure to these risks, while maximizing returns to the Company.

Commodity price risk

Due to the volatility of commodity prices the Company is exposed to adverse consequences of declining prices. The Company may enter into future related oil and natural gas contracts in order to protect its cash flow on future sales from the potential adverse impact of declining prices. The contracts reduce the fluctuation in sales revenue by locking in prices with respect to future deliveries of oil and natural gas. The use of these risk management contracts is governed by a formal policy and is subject to maximum limits established by the Board of Directors. Throughout the years ended December 31, 2008 and 2007, the Company entered into a variety of risk management contracts. As at December 31, 2008, the Company did not have any of these contracts outstanding.

Credit risk

Credit risk arises from the potential loss resulting from a counterparty failing to meet its obligations in accordance with the agreed terms. Substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in

Notes to the Consolidated Financial Statements
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14. FINANCIAL INSTRUMENTS (Continued)

economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence. Receivables related to the sale of the Company's petroleum and natural gas production are mainly from major marketing companies who have excellent credit ratings. These revenues are normally collected on the 25th day of the month following delivery. The Company did experience a credit loss of \$230 on one of its natural gas sales receivables during 2008. This loss was related to a counter-party that was inherited from one of the corporate acquisitions. Steps were immediately taken by the Company to terminate this contract upon its default and move the marketing to one of its mainstream marketers.

The counter-party with which the Company maintains its risk management contracts (hedges) is a major Canadian chartered bank, which has an investment grade rating.

Liquidity risk

Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. The Company has established a standard of ensuring that it has enough resources available to withstand any downturn in the industry. As our industry is very capital intensive, the majority of our spending is related to our capital programs. See Note 16 for disclosure related to the management of Vero's overall debt position. The Company's goal is to prudently spend its capital while maintaining its credit reputation amongst its suppliers. All of the financial liabilities of the Company are estimated to be settled within one year of the balance sheet date except for the bank operating line of credit. The bank line of credit is not expected to be repaid within the next year and the Company will manage its capital spending to stay within its expected and revised borrowing base limits for 2009,

Interest rate risk

Interest rate risk arises from changes in market interest rates that may affect the future cash flows from the Company's financial assets or liabilities. The Company's revolving demand loan facility is subject to floating rates and is therefore exposed to fluctuations in the market rates of interest. The Company had no interest rate swaps or financial contracts in place at December 31, 2008.

Interest Rate Sensitivities

The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. As a result, the Company is exposed to similar fluctuations in its net earnings.

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)*

14. FINANCIAL INSTRUMENTS (Continued)

The following table summarizes the Company's assessment of the sensitivities on net earnings to interest rate changes while holding all other variables constant. The Company believes that a one percent change in interest rates is a reasonable measure of volatility. At December 31, 2008 the increase or decrease in net earnings for a one percent change in interest rates on the floating rate debt amounts to \$691.

Foreign currency exchange risk

Even though all of Vero's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices for these commodities are impacted by the exchange rate between Canada and the United States. In addition, the fair value of our risk management contracts will fluctuate as a result of changes in foreign exchange rates as most derivative contracts are denominated in US dollars. As the effects of foreign exchange fluctuations are imbedded in the Company's results from operations, the aggregate effect of foreign exchange rate fluctuations are not separately identifiable. As at December 31, 2008 the Company had no forward, foreign exchange contracts in place.

15. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2008 the Corporation had the following related party transactions:

a) Two officers and one director of the Company subscribed for 16 flow-through common shares at a price of \$9.25 per share in the April 5, 2008 private placement (note 9(b)). The prices at which the shares were issued were the same as those used in the subscription agreements entered into with non-related parties.

b) Three officers and one director of the corporation received demand loans totaling \$1,110 during the year. \$760 of this amount was repaid by the end of the year leaving \$350 outstanding. The loans bear interest at the company's rate of borrowing from its chartered bank plus 25 basis points. Included in the accounts receivable balances is \$1 of interest receivable from these related parties. In early 2009 additional loans were made to the same individuals increasing the aggregate amount of the loans outstanding to \$4,023.

During the year ended December 31, 2007 the Corporation had the following related party transactions: two officers and one director of the Company subscribed for 16 flow-through common shares at a price of \$9.25 per share in the April 5, 2008 private placement (note 9(a)). The prices at which the shares were issued were the same as those used in the subscription agreements entered into with non-related parties.

Notes to the Consolidated Financial Statements**For the Years Ended December 31, 2008 and 2007***(in thousands, except per share data)*

16. CAPITAL DISCLOSURES

The Company considers its capital structure to include shareholders' equity, bank debt and working capital. The Company will adjust its capital structure to manage its current and projected debt through the issuance of shares, increasing its bank line of credit and/or adjusting its capital spending. Vero continually monitors its capital structure and makes adjustments to it primarily in light of a combination of, its drilling successes, the general economic conditions in the petroleum industry and global events that may affect commodity prices.

Vero's objectives in managing its capital structure are to:

- 1) create and maintain flexibility so that Vero can continue to meet its financial obligations; and
- 2) finance its growth either through internally generated projects, joint venture relationships or asset/corporate acquisitions.

The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including acquisitions, financing arrangements, transactions with related parties, and the purchase of Vero shares for cancellation pursuant to its normal course issuer bids.

The Company monitors its capital structure using primarily the non-GAAP financial metric of net debt to annualized, most recent quarters' cash flow from operations ratio. Vero's objective is to maintain a net debt to cash flow ratio from operations ratio of one and one half times or less. This ratio may temporarily increase as a result of an acquisition; however the Company aims to reduce it below this level as the acquisitions are incorporated into Vero's operations over time. Given the current reduction in commodity prices attributable mainly to the slowdown in global economies, this ratio has changed Vero's target ratio. The goal for the upcoming year will be keep this ratio within the 2.0 to 2.5 times range by the end of the year with the current economic conditions. Should commodity prices improve significantly during the year, the Company will revert to its original goal of no more than 1.5 times without any extraordinary items such as an acquisition.

To facilitate the management of this ratio, the Company prepares an annual budget, which is updated each quarter for any significant acquisition(s); a change in economic circumstances outside the control of the Company; and success or failure of capital recently deployed. Each of the annual budget and the quarterly updates are approved by the Board of Directors and capital spending adjusted accordingly. As at December 31, 2008 the net debt to adjusted cash flow (annualized) was 1.8 (2007 – 1.3) times calculated as follows:

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16. CAPITAL DISCLOSURES (CONTINUED)

	2008	2007
Current assets (excluding risk management contracts)	34,861	20,290
Accounts payable and accrued liabilities	(63,353)	(36,051)
Bank debt	(75,419)	(46,013)
Net Debt	(103,911)	(61,774)
<hr/>		
Fourth quarter results (unaudited)	2008	2007
Net (loss) earnings	(1,075)	2,842
Add (deduct):		
Unrealized gain on financial derivatives	1,612	-
Stock-based compensation	1,259	318
Depletion, depreciation and accretion	12,326	8,836
Future income taxes	248	(335)
Cash flow from operations	14,370	11,661
Annualized cash flow	57,480	46,644
Net Debt to Annualized Cash Flow	1.8	1.3

The net debt to cash flow ratio exceeded the desired level at the end of the year as a result of a combination of declining commodity prices as well as Vero absorbing the net debt of its most recent corporate acquisition (Note 4(c)) in November. While the increased debt ratio as a result of the acquisition was anticipated to take the Company above the desired level, the Company also believes it prudent to adjust its capital program in 2009 to bring this ratio in line with the desired levels. The Company's capital is not subject to any external restrictions as to how it is deployed nor does it have any financial covenants in respect of its bank credit facility.