MANAGEMENT'S REPORT

To the Shareholders of Vero Energy Inc.

Management's Responsibility for 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.

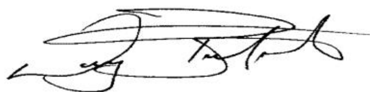
The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those methods it deems most appropriate in the circumstances. Financial statements are not precise since they 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:

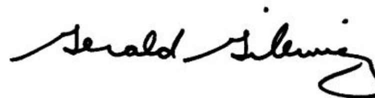
Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. Management has established systems of internal controls, which are designed to provide reasonable assurance the Company's assets are safeguarded from loss or unauthorized 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 meets with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and recommend the financial statements be presented to the Board of Directors for approval. The results of these meetings and reviews have been reported to the Board of Directors, which in turn has approved the financial statements and the related notes.

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 7, 2011

VERO ENERGY INC.

Balance Sheets
As at December 31,

(in thousands of dollars)	**2010**	2009
ASSETS		
CURRENT		
Accounts receivable	**27,458**	29,541
Prepaid expenses and deposits	**3,241**	4,566
Loans receivable (Note 14)	**-**	2,289
	30,699	36,396
Property and equipment (Note 4)	**359,195**	287,645
Goodwill	**19,913**	19,913
	409,807	343,954
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**60,349**	47,588
Current portion of risk management contracts	**1,422**	1,132
Bank debt (Note 5)	**94,164**	77,719
	155,935	126,439
Risk management contracts	**-**	113
Asset retirement obligations (Note 6)	**5,636**	5,379
Future income taxes (Note 7)	**16,273**	15,286
	177,844	147,217
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	**218,764**	181,343
Contributed surplus (Note 9)	**11,204**	9,610
Retained Earnings	**1,995**	5,784
	231,963	196,737
	409,807	343,954

Commitments (Note 11)
See accompanying notes.

APPROVED BY THE BOARD

"Signed" Paul R. Baay, Director

"Signed" Douglas J. Bartole, Director

VERO ENERGY INC.

Statements of Operations, Comprehensive Loss and Retained Earnings

(in thousands of dollars, except per share data)

	2010	2009
REVENUE		
Production revenue	**108,874**	78,144
Realized gain (loss) on risk management activities	**523**	(2,938)
Unrealized loss on risk management activities	**(177)**	(1,245)
	109,220	73,961
Royalties	**(11,568)**	(11,127)
Interest and other	**197**	217
	97,849	63,051
EXPENSES		
Operating	**24,950**	23,254
Transportation	**4,892**	3,235
General and administrative	**6,171**	5,851
Stock based compensation (Note 8(c))	**3,171**	4,851
Interest and bank charges	**5,241**	4,406
Depletion, depreciation and accretion	**58,799**	47,961
	103,224	89,558
LOSS BEFORE INCOME TAXES	**(5,375)**	(26,507)
INCOME TAXES (Note 7)		
Future income tax recovery	**(1,586)**	(6,451)
	(1,586)	(6,451)
NET LOSS AND COMPREHENSIVE LOSS	**(3,789)**	(20,056)
RETAINED EARNINGS, BEGINNING OF PERIOD	**5,784**	25,851
Repurchase of shares (Note 8(f))	**-**	(11)
RETAINED EARNINGS, END OF PERIOD	**1,995**	5,784
NET LOSS PER SHARE (Note 10)		
Basic	**(0.09)**	(0.50)
Diluted	**(0.09)**	(0.50)

VERO ENERGY INC.

Statement of Cash Flows

(in thousands of dollars, except per share data)

	2010	2009
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss	**(3,789)**	(20,056)
Adjustments for:		
Unrealized loss on risk management activities	**177**	1,245
Stock based compensation	**3,171**	4,851
Depletion, depreciation and accretion	**58,799**	47,961
Future income taxes	**(1,586)**	(6,451)
	56,772	27,550
Asset retirement costs (Note 6)	**(341)**	(571)
Changes in non-cash working capital (Note 12(a))	**4,652**	(24,835)
	61,083	2,144
FINANCING		
Increase (decrease) in bank debt	**16,445**	2,300
Proceeds from issuance of common shares, net of share issue costs (Note 8(a))	**32,660**	25,636
Loans to officers / directors (Note 14)	**2,289**	(1,939)
Stock option exercises (Note 8(b))	**4,857**	-
Repurchase of shares (Note 8(f))	**-**	(86)
	56,251	25,911
INVESTING		
Additions to petroleum and natural gas properties	**(124,445)**	(53,507)
Purchase of petroleum and natural gas assets	**(7,988)**	(350)
Additions to administrative assets	**(27)**	(7)
Proceeds on sale of petroleum properties	**3,609**	16,335
Changes in non-cash working capital (Note 12(a))	**11,517**	9,474
	(117,334)	(28,055)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	-	-

Supplementary cash flow information (Note 12(b))

See accompanying notes.

Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009
(thousands, except per share data)

1. INCORPORATION AND NATURE OF BUSINESS

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

Effective January 1, 2010 Vero and Vero Oil and Gas Ltd., a wholly-owned subsidiary of the Company, was amalgamated under the Alberta Business Corporations Act and continued under the name Vero Energy Inc.

2. FINANCIAL PRESENTATION AND 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 accounts receivable, loans receivable, deposits, derivative financial instruments, accounts payable and accrued liabilities, and the bank credit facility. Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the accounting standard for financial instruments. Financial assets and liabilities "held-for-trading" are measured at fair value with changes in those values recognized in earnings. "Loans and receivables" and "other financial liabilities" are measured at cost.

Deposits and risk management liabilities are designated as "held-for-trading". Accounts receivable and loans receivable are designated as "loans and receivables". Accounts payable and accrued liabilities and Vero's credit facility are designated as "other financial liabilities".

b) 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.

2. FINANCIAL PRESENTATION AND POLICIES (CONTINUED)

c) 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. This method uses 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.

d) 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 unproved properties that were excluded from the depletion calculation, less estimated future operating costs, royalties net of applicable tax credits, future capital development costs net of drilling incentive credits and abandonment costs. When the carrying amount of a cost centre is not recoverable the second stage of the process will determine the impairment whereby the cost centre would be written down to its fair value. The second stage requires the calculation of discounted cash flows from un proved plus probable reserves using a risk-free interest rate plus the cost of unproved 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.

e) 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. As at December 31, 2010 and 2009, there was no impairment of goodwill.

2. FINANCIAL PRESENTATION AND POLICIES (CONTINUED)

f) 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.

g) 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.

h) 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.

i) Transportation costs

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

j) Equity based compensation

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 8(b)). 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 for the portion of the options that have not vested.

2. FINANCIAL PRESENTATION AND POLICIES (CONTINUED)

j) Equity based compensation (continued)

In 2009 the Company instituted a directors compensation plan which is described in Note 8(d). The intrinsic value of vested cash settled compensation awards is calculated at each reporting period and recorded as a liability. Compensation expense associated with the liability based compensation plan is recognized in income over the vesting period of the units granted based on their intrinsic value at each reporting period. Cash payments derived from the exercise of these units are recorded as a reduction in the liability at the exercise date.

k) 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 cost of unproved properties. 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 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.

2. FINANCIAL PRESENTATION AND POLICIES (CONTINUED)

l) 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.

m) 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.

n) Risk Management

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.

o) 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 subscription 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 for the shares. In recognition of the foregone tax benefits to the Company, the amount for which the shares are issued is reduced by the tax effect of the tax deductions renounced to subscribers at the time the renunciation documents are filed with the tax authorities.

p) Leases

All of the Company's leases are considered to be operating leases and are charged to expense on a straight-line basis.

q) Debt transaction costs and discounts

Debt transaction costs and discounts are capitalized within bank debt and are being amortized using the effective interest method.

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2010 Vero adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

a) The CICA issued Handbook Section 1582 *Business Combinations*, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2011. The new standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the acquisition date. The adoption of the revised standard did not have a material impact on Vero's financial statements.

b) "Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard did not have a material impact on Vero's Financial Statements.

c) "Non-controlling Interests", Section 1602. The standard establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard did not have a material impact on Vero's Financial Statements.

4. PROPERTY AND EQUIPMENT

	December 31, 2010		
	Cost	Accumulated depletion, depreciation and accretion	**Net Book Value**
Petroleum and natural gas properties and facilities	564,145	(205,065)	**359,080**
Administrative assets	318	(203)	**115**
	564,463	(205,268)	**359,195**

	December 31, 2009		
	Cost	Accumulated depletion, depreciation and accretion	Net Book Value
Petroleum and natural gas properties and facilities	434,235	(146,711)	287,524
Administrative assets	291	(170)	121
	434,526	(146,881)	287,645

4. PROPERTY AND EQUIPMENT (continued)

Unproved land costs and salvage values excluded from the depletion calculation as at December 31, 2010 were $24,601 (December 31, 2009 - $20,157). Future development costs on proved reserves of $104,285 (December 31, 2009 - $42,169) were included in the depletion calculation. For the year ended December 31, 2010, the Company capitalized $1,265 (December 31, 2009 - $922) in general and administrative expenses directly related to geological and geophysical salaries and wages.

The Company performed a ceiling test calculation as at December 31, 2010 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, 2010.

	WTI Cushing Oklahoma ($US/bbl)	Edmonton Par 40 API ($Cdn/bbl)	Alberta AECO-C ($Cdn/mmbtu)	Natural Gas Liquids (Pentane) ($Cdn/bbl)
2011	86.60	86.57	4.14	90.25
2012	88.77	90.08	4.72	92.93
2013	90.20	92.55	5.23	95.27
2014	92.45	94.86	5.94	97.64
2015	96.13	98.66	6.25	101.59
2016	99.73	102.40	6.57	105.45
2017	101.80	104.54	6.83	107.67
2018	103.83	106.62	7.08	109.79
2019	105.94	108.81	7.28	112.04

The annual escalation rate used after 2019 is 1.88%.

5. BANK DEBT

The Company has a $140,000 (December 31, 2009 - $115,000) revolving credit facility with a banking syndicate and is comprised of letters of credit, bankers acceptances and revolving line of credit. The authorized limit is subject to a semi-annual borrowing base review by the syndicate. The facility is available to the Company at their discretion until April 30, 2011. At that date Vero may request a renewal for a period of up to 364 days. The facility is secured by a $300,000 (December 31, 2009 - $300,000) floating charge debenture over all the assets of the Company. Interest on the outstanding advances is calculated using a pricing grid that is dependent on trailing net debt to cash flow ratio. In addition to these advances, the Company has access to bankers acceptances and LIBOR loans, which are subject to stamping fees and margins ranging from 2.5 percent to 4.0 percent depending on the debt to cash flow ratio as calculated at the Company's immediately preceding quarter's end. Standby fees are charged on the undrawn facility at rates ranging from 0.625 percent to 1.00 percent depending on the net debt to cash flow ratio at the Company's previous quarter end. For the year ended December 31, 2010 the effective interest rate was 4.6% (December 31, 2009 – 4.1%).

Debt discounts and transaction costs are capitalized within bank debt and are being amortized using the effective interest method. During 2010 $4,732 (2009 - $4,018) in transaction costs and discounts have been capitalized relating to the issuance of the revolving line of credit and bankers acceptances.

6. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from the ownership interests it has 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, 2010 to be $14,759 (2009 - $12,721), which will be incurred at various times between 2012 and 2023. The fair value of the asset retirement obligations incurred in the period ended December 31, 2010 was calculated using a credit-adjusted risk free rate of 7.5% (2009 – 7.9%) and an inflation factor of 1.6% (2009 – 1.8%). Settlement of the obligations will be funded from general corporate funds at the time of retirement or removal. As at December 31, 2010, no funds have been set aside to settle these obligations. Changes to asset retirement obligations during the periods were as follows:

	2010	2009
Asset retirement obligations, beginning of period	**5,379**	5,570
Liabilities disposed of during the year	**(46)**	(140)
Liabilities incurred during the year	**234**	51
Liabilities settled during the period	**(341)**	(571)
Change in estimated future cash flows	**(2)**	17
Accretion	**412**	452
Asset retirement obligations, end of period	**5,636**	5,379

7. INCOME TAXES

The provision for income tax differs from the amounts that would have resulted from the combined federal and provincial rate had it been applied for the periods ended:

	2010	2009
Loss before income taxes	**(5,375)**	(26,507)
Expected income tax recovery at the statutory rate of 28.0% (2009 – 29.0%)	**(1,505)**	(7,687)
Tax effect of non-deductible and non-taxable amounts related to:		
Stock based compensation expense and other non-deductible items	**904**	1,420
Changes in tax rates	**(1,037)**	(188)
Reconcile book to actual on filing tax returns	**52**	13
Other	**-**	(9)
Total income tax provision	**(1,586)**	(6,451)

The income tax provision is comprised of:

	2010	2009
Future income tax recovery	**(1,586)**	(6,451)

7. INCOME TAXES (continued)

The future income tax liability is comprised of the following:

	2010	2009
Future income tax liabilities:		
Temporary differences relating to capital assets	**19,726**	18,520
Future income tax assets:		
Asset retirement obligations	**(1,409)**	(1,345)
Unrealized financial contract losses	**(376)**	(349)
Loss carryfowards	**(475)**	(545)
Financing costs and other	**(1,165)**	(972)
Other	**(28)**	(23)
	(3,453)	(3,234)
Net future income tax liability	**16,273**	15,286

As at December 31, 2010, Vero had $285,007 (2009 - $222,944) of tax pools available for deduction in future years. Included in this amount is $1,928 (2009 – $2,227) of non-capital losses, which expire at various times between 2016 and 2019.

8. SHARE CAPITAL

	Shares (000's)	**$000's**
Authorized:		
Unlimited number of voting common shares, no par value		
Unlimited number of first preferred shares, no par value		
Issued:		
Common shares		
Balance December 31, 2008	36,969	**160,103**
Normal course issuer bid (f)	(17)	**(75)**
Adjustment for tax cost of flow-through shares (a)	-	**(4,844)**
Private placement, net of share issue costs (a)	4,000	**13,916**
Private placement, net of share issue costs (a)	2,231	**11,720**
Adjustment for tax benefits from share issue costs	-	**523**
Balance December 31, 2009	43,183	**181,343**
Issued on asset acquisition (e)	131	**900**
Exercise of stock options (b)	999	**6,434**
Adjustment for tax cost of flow-through shares (a)	-	**(3,173)**
Private placement, net of share issue costs (a)	4,607	**32,660**
Adjustment for tax benefits from share issue costs	-	**600**
Balance December 31, 2010	48,920	**218,764**

8. SHARE CAPITAL (CONTINUED)

a) Private placement

On May 21, 2009, the Company closed a placement for the issuance of 4,000 common shares at a price of $3.75 per share. The net proceeds of issuance of $13,916 were comprised of gross proceeds of $15,000 less expenses of the issue of $1,084.

On November 3, 2009 the Company closed a private placement for the issuance of 2,231 flow-through common shares at a price of $5.65 per share. The net proceeds of issuance of $11,720 were comprised of gross proceeds of $12,609 less expenses of the issue of $889. The tax effect of the tax benefits renounced to subscribers in respect of the flow-through shares was recognized in February 2010, which is when the renouncement documents were filed with the taxation authorities. This renunciation resulted in $3,173 in future tax liability being offset to share capital. Using a combination of the regular, and the “look-back” provisions of the Income Tax Act, the Company was required to incur eligible expenditures in the amount of $12,609 prior to December 31, 2010.

On November 5, 2010 the Company closed a bought deal financing of 1,539,000 common shares at a price of $6.50 per share and 3,068,000 common shares issued on a flow-through basis at a price of $8.15 per flow-through common share. The net proceeds of issuance of $32,660 were comprised of gross proceeds of $35,008 less expenses of the issue of $2,348. The Company is required to incur eligible expenditures in the amount of $25,004 prior to December 31, 2011 (Note 11(e)).

b) 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, 2010 there were 4,892 (December 31, 2009 – 4,318) 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. The following stock options were outstanding at the end of the respective periods:

8. SHARE CAPITAL (CONTINUED)

	December 31, 2010		December 31, 2009	
	Stock Options	**Weighted Average Exercise Price $**	Stock Options	Weighted Average Exercise Price $
Outstanding, beginning of year	**4,203**	**6.69**	3,085	6.69
Granted	**1,409**	**6.54**	1,840	3.83
Exercised	**(999)**	**4.86**	-	-
Forfeited	**(137)**	**4.42**	(40)	5.39
Surrendered for cancellation	**(200)**	**9.50**	(682)	7.90
Outstanding, end of year	**4,276**	**5.57**	4,203	5.26
Exercisable, end of year	**1,475**	**5.67**	1,690	5.62

	Options Outstanding					
	December 31, 2010			December 31, 2009		
Exercise Price	**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
$3.00 - 3.70	**570**	**3.46**	**3.5**	694	3.46	4.5
$4.00 - 5.61	**1,290**	**4.20**	**3.5**	2,256	4.49	3.0
$5.90 - 7.71	**2,416**	**6.81**	**3.7**	1,038	7.26	3.2
$8.34 – 9.50	**-**	**-**	**-**	215	9.44	3.5
	4,276	**5.57**	**3.6**	4,203	5.26	3.3

c) 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:

8. SHARE CAPITAL (CONTINUED)

	2010	2009
Risk free rate (%)	**2.2%**	2.2%
Expected life (years)	**5**	5
Expected volatility (%)	**48%**	48%
Expected dividends	**-**	-

For the period ended December 31, 2010, 1,409 (2009 – 1,840) stock options were granted to employees, officers and directors. During the year ended 2010, $3,171 (2009 - $4,851) was recorded as stock compensation expense with respect to the options outstanding with a corresponding credit to contributed surplus (Note 9). The option grants during the period had a weighted - average fair value expense attributed to them of $2.82 (2009 - $1.69) per share.

d) Directors Compensation Unit Plan

In November 2009, Vero established a Directors Compensation Plan which includes compensation units granted only to directors of the Company. These units vest annually over a three - year period and expire three years from the date of grant. Upon vesting, the holder is entitled to exercise the units for cash equal to the amount by which the exercise price (the fair value of a Vero common share on the date of exercise) exceeds the grant price (the fair value of a Vero common share on the day preceding the date of grant). On November 9, 2009, 225 units were issued to directors of Vero. During 2010, 45 units were forfeited and 170 new units were issued. As at December 31, 2010 there were 350 units outstanding. Included in accounts payable and accrued liabilities is $227 (2009 - $5) pertaining to these grants. During the period ended December 31, 2010, $222 (2009 – $5) was charged to general and administrative expense.

e) Acquisition of petroleum and natural gas assets

On February 16, 2010, Vero acquired certain assets in the Rosevear, Alberta area. Upon closing of the acquisition, 131 common shares were issued at the market value per share of $6.89 for total consideration of $900.

f) Normal Course Issuer Bid

In August 2007, the Toronto Stock Exchange approved the Company's application to initiate a Normal Course Issuer Bid ("Bid"). The Bid is renewable on a yearly basis. Under each Bid, Vero is entitled to purchase up to 5% of its outstanding common shares. During the period ended September 30, 2010, the Company purchased and subsequently cancelled Nil (2009 – 17) common shares pursuant to its Normal Course Issuer Bid. The aggregate cost of the purchases was Nil (2009 - $86) of which Nil (2009 - $75) was charged to share capital based on the average book value per share as of the date of repurchase, and Nil (2009 - $11) was charged to retained earnings. The average per share

8. SHARE CAPITAL (CONTINUED)

cost of the repurchase in 2009 was $4.95. The Company did not renew its Bid after the 2009 expiry.

9 CONTRIBUTED SURPLUS

The following table reconciles the Company's contributed surplus:

	2010	2009
Balance at January 1	**9,610**	4,759
Stock-based compensation expense	**3,171**	4,851
Exercise of stock options (Note 8(d))	**(1,577)**	-
Balance at end of period	**11,204**	9,610

10. PER SHARE AMOUNTS

The following table summarizes the shares used in calculating net earnings (loss) per share for the years ended December 31:

	2010	2009
Basic loss per share computation		
Net loss	**(3,789)**	(20,056)
Weighted average shares outstanding - basic	**44,257**	39,762
Basic loss per share	**(0.09)**	(0.50)

	2010	2009
Diluted loss per share computation		
Net loss	**(3,789)**	(20,056)
Weighted average shares outstanding - basic	**44,257**	39,762
Dilutive stock options outstanding	**-**	-
Shares notionally repurchased with proceeds from dilutive stock options and returned to treasury	**-**	-
Weighted average shares outstanding - diluted	**44,257**	39,762
Diluted loss per share	**(0.09)**	(0.50)

10. PER SHARE AMOUNTS (CONTINUED)

At December 31, 2010, 4,276 (2009 – 4,203) of the issued stock options were excluded from the calculation of diluted weighted average shares outstanding as to include them would be anti-dilutive.

11. 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 are as follows:

	2010	2009
2010	**-**	410
2011	**1,557**	406
2012	**1,402**	269
2013	**1,047**	14
2014	**774**	-
2015	**360**	-
Total minimum payments	**5,140**	1,099

b) Office lease costs

The Company has committed to future minimum payments under an operating lease that covers the rental of office space and a proportionate share of operating costs as follows:

	2010	2009
2010	**-**	1,045
2011	**660**	651
Total minimum payments	**660**	1,696

11. COMMITMENTS (continued)

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. Currently, there are several statements of claim which have been filed against the Company. Management does not believe that any of the lawsuits have merit and consequently has not made any provision in these financial statements for any loss. In addition, management is not currently aware of any other claims or actions, actual or threatened 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, 2010 Vero had committed to drill and complete a total of 2.8 net (2009 – 5.0 net) wells in Alberta with a commencement date in 2011, pursuant to farm-in agreements with industry partners. The Company expects to satisfy their net portion of these commitments at an estimated cost of $6,825 (2009 – $10,100).

(e) Flow-through shares

Pursuant to the flow-through share private placement entered into on November 5, 2010 (Note 8(a)), the Company is obligated to incur $25,004 in eligible costs by December 31, 2011. As at December 31, 2010, the Company had $17,871 remaining on this commitment.

12. SUPPLEMENTARY INFORMATION

a) Changes in non-cash working capital

	2010	2009
Accounts receivable	**2,083**	(323)
Prepaid expenses and deposits	**1,325**	728
Accounts payable and accrued liabilities	**12,761**	(15,766)
Net change in non-cash working capital	**16,169**	(15,361)
Relating to:		
Investing activities	**11,517**	9,474
Operating activities	**4,652**	(24,835)
	16,169	(15,361)

12. SUPPLEMENTARY INFORMATION (CONTINUED)

b) Supplementary cash flow information

	2010	2009
Interest paid	**4,510**	3,910

13. FINANCIAL INSTRUMENTS

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, deposits, loans receivable, 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. Assets and liabilities that are measured at fair value are classified into levels, reflecting the method used to make the measurements. Level 1 fair value measurements are based on unadjusted quoted market prices. Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. The Company's derivative financial instruments are classified as Level 2. 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. The actual amounts realized may differ from these estimates. Level 3 fair value measurements are based on unobservable information. Assessment of the significance of a particular input to fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. Vero's bank debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

13. FINANCIAL INSTRUMENTS (CONTINUED)

Risk management assets and liabilities are recorded at their estimated fair value based on the mark-to-market method of accounting, using quoted market prices or, in their absence, third party market indications and forecasts. The carrying and fair values of the Company's financial instruments as at December 31, 2010 were as follows:

		2010		2009	
	Level	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial Assets					
Held-for-trading:					
Deposits	**-**	**2,880**	**2,880**	4,159	4,159
Loans and receivables:					
Accounts receivable	**-**	**27,458**	**27,458**	29,541	29,541
Loans receivable	**-**	**-**	**-**	2,289	2,289
Financial Liabilities					
Held-for-trading:					
Risk management liabilities	**2**	**1,422**	**1,422**	1,245	1,245
Other financial liabilities					
Accounts payable and accrued Liabilities	**-**	**60,349**	**60,349**	47,588	47,588
Credit facility	**-**	**94,164**	**94,164**	77,719	77,719

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 following table summarizes the sensitivities of the fair value of the Company's risk management positions to fluctuations in commodity price changes while holding all other variables constant. The Company believes that a ten percent change in commodity prices is a reasonable measure of volatility. Based on the financial instruments that were outstanding at December 31, 2010 and 2009, fluctuations in commodity prices could have resulted in unrealized gains (losses) that would impact after-tax net earnings as at December 31, 2010 as follows:

	2010		2009	
	Favourable 10% Change	**Unfavourable 10% Change**	**Favourable 10% Change**	**Unfavourable 10% Change**
Crude oil prices	2,544	(2,544)	1,464	(1,464)
Natural gas prices	4,326	(4,326)	4,369	(4,369)

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.

13. FINANCIAL INSTRUMENTS (CONTINUED)

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. From time to time, the Company has entered into a variety of risk management contracts. As at December 31, 2010, the Company had the following contracts outstanding:

Instrument	Commodity	Amount	Term	Price (CDN $/bbl)	Type
Costless collar	Oil	500 bbl/day	Oct. 1, 2010-Mar. 31, 2011	$80.00-$98.00	Financial
Costless collar	Oil	500 bbl/day	Jan. 1, 2011-Dec. 31, 2011	$80.00-$100.00	Financial
Crude oil swap	Oil	500 bbl/day	Jan. 1, 2011-Dec. 31, 2011	$89.00	Financial

The contracts in place resulted in an unrealized gain (loss) for the year ended December 31, 2010 of $(277) (2009 – $978).

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 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 solid credit ratings. These revenues are normally collected on the 25th day of the month following delivery.

The counterparty with which the Company maintains its risk management contracts is a major Canadian chartered bank, which has an investment grade credit rating. The carrying amounts of accounts receivable plus the loans receivable represent the Company's maximum credit exposure.

13. FINANCIAL INSTRUMENTS (CONTINUED)

During the years ended December 31, 2010 and 2009, the Company has not experienced any credit loss in the collection of its accounts or loans receivable. The Company does not have any allowance for doubtful accounts as at December 31, 2010 or 2009.

As at December 31, 2010, accounts receivable and their respective aging were comprised of the following:

	Less than 30 days	31 – 60 days	61 – 90 days	More than 90 days	Total
Sales and accrued revenue receivables	9,628	256	225	2,249	12,358
Joint interest billings with partners	3,440	4,218	680	763	9,101
Provincial government incentives	-	-	-	4,164	4,164
Other receivables	1,773	3	15	44	1,835
Total accounts receivable	14,841	4,477	920	7,220	27,458

As at December 31, 2009, accounts receivable and their respective aging were comprised of the following:

	Less than 30 days	31 – 60 days	61 – 90 days	More than 90 days	Total
Sales and accrued revenue receivables	11,213	158	212	1,406	12,989
Joint interest billings with partners	3,973	2,647	1,184	5,684	13,488
Provincial government incentives	-	-	-	590	590
Other receivables	336	2,047	5	86	2,474
Total accounts receivable	15,522	4,852	1,401	7,766	29,541

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 downturns in the industry or the economy in general. As our industry is very capital intensive, the majority of our spending is related to our capital programs. As disclosed in Note 15, a key measure that the Company utilizes in evaluating its capital structure and debt are total debt to cash flow from operating activities (before changes in non-cash working capital and expenditures on asset retirement obligations) and the current cash flow and credit available from its creditors in relation to the Company's budgeted capital program.

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 excluding bank debt are estimated to be settled within one year of the balance sheet date. The Company has a committed facility which matures on April 30, 2011 and may be extended for an additional 364 days with the consent of the lenders. An interim review was conducted by the financial institutions in the fourth quarter of 2010 and the borrowing base of $140M was reconfirmed. Although management expects that the financial institutions will extend the facility in 2011, there can be no assurance that the financial institutions will choose to do so. Should the financial institutions not extend the loan, the Company would need to seek alternative forms of debt or equity financing or dispose of certain assets to repay the outstanding indebtedness. The Company will manage its capital spending to stay within its expected and revised borrowing base limits for the duration of 2011.

13. FINANCIAL INSTRUMENTS (CONTINUED)

As at December 31, 2010, the timing of cash outflows relating to financial liabilities are outlined in the table below:

	Less than 1 Year	1-3 Years	4-5 Years	There-after	Total
Accounts payable and accrued liabilities	60,349	-	-	-	60,349
Risk management liabilities	1,422	-	-	-	1,422
Bank debt	94,164	-	-	-	94,164

As at December 31, 2009, the timing of cash outflows relating to financial liabilities are outlined in the table below:

	Less than 1 Year	1-3 Years	4-5 Years	There-after	Total
Accounts payable and accrued liabilities	47,588	-	-	-	47,588
Risk management liabilities	1,132	113	-	-	1,245
Credit facility	77,719	-	-	-	77,719

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. Periodically, the Company will enter into a variety of risk management contracts to mitigate exposure to interest rate risk. The Company had the following interest rate swap in place at December 31, 2010.

Contract	Notional Quantity	Term	Reference	Strike Price	Type
BA Rate	$25,000/year	January 4, 2010 – January 3, 2012	CAD-BA - CDOR	2.05%	Swap

The contract in place resulted in an unrealized gain (loss) for the period ended December 31, 2010 of $100 (2009 – $267).

Based on the interest rate financial instrument that was outstanding at December 31, 2010, fluctuations in interest rates could have resulted in unrealized gains (losses) that would impact after-tax net earnings as at December 31, 2010 as follows:

	2010		2009	
	Favourable 1% Change	Unfavourable 1% Change	Favourable 1% Change	Unfavourable 1% Change
Interest rate swap	188	(188)	375	(375)

13. FINANCIAL INSTRUMENTS (CONTINUED)

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. The Company's assessment of the sensitivity of net earnings to interest rate changes while holding all other variables constant and utilizing a one percent change in interest rates is a reasonable measure of volatility. At December 31, 2010, the increase or decrease in net earnings, on an after-tax basis, for a one percent change in interest rates on the floating rate debt amounts to $188 (2009 - $375).

Foreign currency exchange risk

Although 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, 2010, the Company had no forward foreign exchange contracts in place.

14. RELATED PARTY TRANSACTIONS

a) Three officers and one director of the Company received demand loans during the period from December 2008 to September 30, 2009. The aggregate amount outstanding from these related parties at December 31, 2010 was nil (December 31, 2009 - $2,289). Interest on these loans was at a commercial, arms length, rate of interest. The rate used was the Company's rate of borrowing from its banks plus 25 basis points. Included in the accounts receivable balances is nil (December 31, 2009 – $1) of interest receivable from these related parties.

b) One officer and one director of the Company subscribed for an aggregate of 14 Flow-Through common shares at a price of $5.65 per share in the November 3, 2009 private placement (Note 8(a)). The prices at which the shares were issued were the same as those in the subscription agreements entered into with non-related parties.

c) Two officers and three directors of the Company subscribed for an aggregate of 36 Flow-Through common shares at a price of $8.15 per share in the November 5, 2010 private placement (Note 8(a)). The prices at which the shares were issued were the same as those in the subscription agreements entered into with non-related parties.

15. 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.

15. CAPITAL DISCLOSURES (CONTINUED)

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

a) create and maintain flexibility so that Vero can continue to meet its financial obligations; and

b) 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 ratio of net debt to annualized, most recent quarters' cash flow from operations. Vero's objective is to maintain a net debt to cash flow 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 acquisition is incorporated into Vero's operations over time. Given the continued low natural gas prices, this ratio has moved Vero's target ratio beyond its desired ceiling. The goal for 2011 will be to achieve a ratio of between 1.5 to 1.7 times by the end of the year given the current economic conditions. Should commodity prices improve throughout the year, the Company will revert to its desired goal of no more than 1.5 times, which does not take into account any extraordinary items such as an acquisition.

To facilitate the management of this ratio, the Company prepares an annual budget, which is updated monthly for any significant acquisitions, changes in economic circumstances outside the control of the Company; and the success or failure of recently deployed capital. Each of the annual budget and the quarterly updates used for Board meetings are approved by the Board of Directors and capital spending adjusted accordingly. As at December 31, 2010 the net debt to adjusted cash flow (annualized) was 2.2 (2009 – 3.2) times calculated as follows:

	2010	2009
Current assets	**30,699**	36,396
Accounts payable and accrued liabilities	**(60,349)**	(47,588)
Bank debt	**(94,164)**	(77,719)
Net debt	**(123,814)**	(88,911)

	2010	2009
Net loss	**(3,789)**	(20,056)
Add (deduct):		
Unrealized loss (gain) on risk management activities	**177**	1,245
Stock based compensation	**3,171**	4,851
Depletion, depreciation and accretion	**58,799**	47,961
Future income taxes	**(1,586)**	(6,451)
Funds flow from operations	**56,772**	27,550
Net debt to annualized funds flow	**2.2X**	3.2X

15. CAPITAL DISCLOSURES (CONTINUED)

The Company's capital is not subject to any external restrictions as to how it is deployed. The only financial covenant the Company has in respect of its credit facility was that aggregate corporate net debt must not exceed $140,000. At no time during 2010 has net debt exceeded this threshold.

16. SUBSEQUENT EVENTS

a) On January 31, 2011 the Company entered into the following financial derivative crude oil contracts:

	Notional Quantity	Term	Price (CDN $/bbl)	Type
Costless collar	500 bbl/day	Jan. 1, 2012-Dec. 31, 2012	$85.00-$109.25	Financial
Costless collar	500 bbl/day	April. 1, 2011-Mar.31, 2012	$85.00-$104.00	Financial