

VECTA ENERGY CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2007

DECEMBER 31, 2006

DECEMBER 31, 2005

Management's Responsibility

To the Shareholders of Vecta Energy Corporation:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

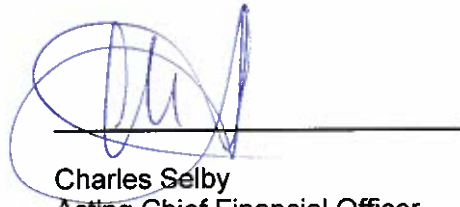
The Board of Directors is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management, and external auditors. The Board is also responsible for recommending the appointment of the Company's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

March 17, 2008



Thomas D. Coffman
Chief Executive Officer



Charles Selby
Acting Chief Financial Officer

Auditors' Report

To the Shareholders of Vecta Energy Corporation:

We have audited the balance sheets of Vecta Energy Corporation as at December 31, 2005, 2006 and 2007 and the statements of loss and deficit and cash flows for the period ended December 31, 2005 and the years ended December 31, 2006 and 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005, 2006 and 2007 and the results of its operations and its cash flows for the period/years then ended in accordance with Canadian generally accepted accounting principles.

Meyer Norris Penny LLP

Calgary, Alberta

March 17, 2008

Chartered Accountants



Balance Sheets

	December 31 2007	December 31 2006	December 31 2005
Assets			
Current assets			
Cash	\$ 30,007	\$ 418,447	\$ 6,683,752
Accounts receivable	27,032	733,538	396,114
Investments	(note 4) 25,000	50,000	50,000
Prepaid expenses and refundable deposits	-	21,864	13,500
	82,039	1,223,849	7,143,366
Intangible assets			
Property and equipment	(note 5) -	225,205	525,205
	(note 6) 1,505,748	1,509,694	1,347,237
	\$ 1,587,787	\$ 2,958,748	\$ 9,015,808
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 928,854	\$ 1,044,670	\$ 636,641
Asset retirement obligations	(note 7) 38,056	34,816	18,891
	966,910	1,079,484	655,532
Shareholders' equity			
Share Capital	(note 8) 8,070,943	8,130,943	8,532,398
Contributed surplus	(note 11) 719,881	480,560	156,515
Deficit	(8,169,947)	(6,732,239)	(328,637)
	620,877	1,879,264	8,360,276
Going concern	(note 2)		
Commitments	(note 15)		
Subsequent events	(note 16)		
	\$ 1,587,787	\$ 2,958,748	\$ 9,015,808

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

Statements of Loss and Deficit

	Year ended December 31		Period ended
	2007	2006	December 31 2005
Revenue			
Oil and natural gas sales	\$ -	\$ 18,914	\$ -
Crown royalties, net of Alberta Royalty Tax Credit	96	(189)	-
Other income	7,812	50,000	-
Interest income	2,045	58,581	25,972
	9,953	127,306	25,972
Expenses			
Operating	17,054	32,567	-
General and administrative	545,858	568,746	111,589
Stock-based compensation	179,321	324,045	56,068
Interest	-	46,409	-
Depletion, depreciation and accretion	232,391	314,176	79,011
Write down of petroleum and natural gas assets	473,037	6,246,420	-
	1,447,661	7,532,363	246,668
Loss before taxes	(1,437,708)	(7,405,057)	(220,696)
Provision for (recovery of) future income taxes	(note 10)	-	(1,001,455)
			107,941
Loss for the period	\$ (1,437,708)	\$ (6,403,602)	\$ (328,637)
Deficit, beginning of period,	(6,732,239)	(328,637)	-
Deficit, end of period	\$ (8,169,947)	\$ (6,732,239)	\$ (328,637)

See accompanying notes to financial statements.

Statements of Cash Flows

	Year ended December 31		Period ended December 31
	2007	2006	2005
Cash provided by (used in):			
Operations			
Loss for the period	\$ (1,437,708)	\$ (6,403,602)	\$ (328,637)
Add: non-cash items			
Depletion, depreciation and accretion	232,391	314,176	79,011
Write down of petroleum and natural gas assets	473,037	6,246,420	-
Stock-based compensation	179,321	324,045	56,068
Future income tax expense (recovery)	-	(1,001,455)	107,941
	(552,959)	(520,416)	(85,617)
Changes in non-cash operating working capital	(note 14) 817,602	(346,474)	(300,710)
	264,643	(866,890)	(386,327)
Financing			
Issuance of common shares	-	600,000	8,194,512
Cost of issuing shares	-	-	(669,608)
	-	600,000	7,524,904
Investments			
Additions to property and equipment	(473,036)	(6,407,128)	(932,563)
Changes in non-cash investing working capital	(note 14) (180,047)	408,713	477,738
	(653,083)	(5,998,415)	(454,825)
Increase (decrease) in cash	(388,440)	(6,265,305)	6,683,752
Cash, beginning of period	418,447	6,683,752	-
Cash, end of period	\$ 30,007	\$ 418,447	\$ 6,683,752

See accompanying notes to financial statements.

Notes to Financial Statements

For the years ended December 31, 2007 and December 31, 2006 and for the period ended December 31, 2005

1. Corporate Structure and basis of presentation

Vecta Energy Corporation ("Vecta" or the "Company") is a junior oil and gas exploration and production company based in Calgary, Alberta. All of the Company operations are located in Western Canada. Vecta commenced operations on November 1, 2005. The Company is involved in the exploration, development and production of petroleum and natural gas in Western Canada.

2. Going Concern

As at December 31, 2007, the Company had a working capital deficiency totaling \$786,815. The working capital deficiency primarily results from accounts payable and accrued liabilities incurred as part of its operations and drilling program. Management is proposing to repay this working capital deficiency through a combination of cash flows and future equity issues. The actual outcome of future events may differ from these plans. The future operation of the Company is dependant on its ability to successfully explore, develop and produce economically viable reserves and market petroleum products from its properties, raise capital to support its activities and obtain financial support from lenders.

These financial statements have been prepared on the basis that the Company will be able to discharge its obligations and realize its assets in the normal course of business at the values at which they are carried in these financial statements, and that the Company will be able to continue its business activities.

Management believes that the going concern assumption is appropriate for these financial statements. If this assumption were not appropriate, adjustments to the carrying values of the assets and liabilities, revenues and expenses and the balance sheet classifications used may be necessary.

3. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include term deposits and investments with original maturities of three months or less.

Property and Equipment

The Company accounts for petroleum and natural gas activities in accordance with the Canadian guideline on full cost accounting in the petroleum and natural gas industry, whereby all costs associated with the acquisition of and the exploration for and development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized in one cost centre. Such costs include land acquisition costs, lease rentals on non-producing properties, drilling, equipping, processing facilities, geological and geophysical costs and overhead expenses directly related to exploration and development activities.

Gains and losses are not recognized upon the disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the depletion rate of 20% or more, in which case a gain or loss is recognized.

Notes to Financial Statements

For the years ended December 31, 2007 and December 31, 2006 and for the period ended December 31, 2005

Property and Equipment (continued)

The cost of acquiring and evaluating unproved properties are initially excluded from the depletion calculation. These properties are assessed at least annually for impairment. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion.

Depletion is calculated using the unit-of-production method based on estimated proved reserves before royalties, as determined by independent engineers. For purposes of this calculation, reserves and production of natural gas are converted into equivalent barrels of petroleum based on the relative energy equivalent of six thousand cubic feet of natural gas to one barrel of crude petroleum.

Petroleum and natural gas properties are evaluated at least annually to determine that the carrying amount is recoverable and does not exceed the fair value of the properties. The carrying amount is assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceeds the carrying amount. An impairment loss is recognized to the extent that the carrying amount of petroleum and natural gas properties exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate.

Office furniture and equipment is depreciated on a declining balance basis over its estimated useful life at rates varying from 20% to 50%.

Intangible assets

Specified intangible assets are recognized and reported apart from goodwill. Intangible assets recognized separately from goodwill and subject to amortization are recorded at cost and amortized using the straight-line method over 2 years, based upon management's best estimate of the useful life of the asset.

Long lived assets

Long-lived assets consists of property, plant and equipment and intangible assets with finite useful lives. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Fair value is determined using discounted cash flows.

Asset Retirement Obligation

The Company recognizes the fair value of an asset retirement obligation ("ARO") associated with long-lived assets in the period in which it is put into use and when a reasonable estimate of fair value can be made. The fair value of the estimated ARO is recorded as a long-term liability with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of this accretion is included in depletion, depreciation and accretion expense in the period. Revisions to the estimated timing of cash flow or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in the Company's earnings in the year in which the settlement occurs.

Notes to Financial Statements

For the years ended December 31, 2007 and December 31, 2006 and for the period ended December 31, 2005

Asset Retirement Obligation (continued)

Determination of the original undiscounted costs are based on engineering estimates using current costs and technology in accordance with existing legislation and industry practice. The obligations recognized are statutory, contractual or legal obligations. The estimation of these costs can be affected by factors such as the number of wells drilled, well depth and area specific environmental legislation

Joint Operations

A portion of the exploration, development and production activities is conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Future Income Taxes

Future income taxes are accounted for based on the asset and liability method for tax allocation accounting. Under this method, the Company records future income taxes based on the difference between the accounting and income tax basis of an asset or liability. Future income tax assets and liabilities are recorded using expected income tax rates to be applied when these differences reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

Flow-through shares

Periodically, the Company may finance a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow-through share issuances, the income tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the flow-through shares issued are recorded net of the tax benefits renounced to the subscribers when the renouncement is made.

Revenue recognition

Revenue associated with the sale of petroleum and natural gas production owned by the Company is recognized when ownership title passes from the Company to its customers. Revenue is presented gross of direct transportation costs.

Per share amounts

The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money securities are used to repurchase common shares at the average market price during the period. Basic earnings or loss per common share are computed by dividing net earnings or loss by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if the securities or other contracts to issue common shares were exercised or converted to common shares. Anti-dilutive securities are not included in the calculation.

Stock based compensation

The Company uses the fair value method for valuing stock option grants. Compensation expense is based on the estimated fair value of the options at the time of the grant as determined using the Black-Scholes pricing model. Under this method, compensation cost attributable to all options granted is measured at fair value at the grant date and expensed on a straight-line basis over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. In the event that vested options expire, amounts previously recognized in contributed surplus and compensation expense associated with such stock options is not reversed. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Company accounts for actual forfeitures as they occur.

Notes to Financial Statements

For the years ended December 31, 2007 and December 31, 2006 and for the period ended December 31, 2005

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 revenues and expenses during the reporting period. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where necessary. Amounts recorded for depletion of petroleum and natural gas properties and accretion on the asset retirement obligation as well as the ceiling test calculation are based on estimates of proven reserves, production rates, future petroleum and natural gas prices, future costs and other relevant assumptions. Amortization is based on the estimated useful lives of other Property and Equipment. The amounts disclosed relating to fair values of stock options issued are based on management's estimates of expected stock price volatility, expected lives of the options, expected dividends to be paid by the Company, risk-free interest rates and certain other assumptions. The calculation of future income tax is based on assumptions, which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse.

Recent accounting pronouncements

In January 2005, the Canadian Institute of Chartered Accountants issued new recommendations for the recognition and measurement of financial instruments, and amendments to the existing presentation and disclosure standards, effective for interim and annual financial statements with fiscal years beginning on or after October 1, 2006. Section 3855 Financial Instruments – Recognition and Measurement establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Section 3861 Financial Instruments – Disclosure and Presentation discusses the presentation and disclosure of these items. The application of hedge accounting is covered in Section 3865 Hedges. Section 1530 Comprehensive Income establishes standards for reporting and displaying certain gains and losses, such as unrealized gains and losses related to hedges or other derivative instruments, outside of net income, in a statement of comprehensive income. Section 3251 Equity establishes standards for the presentation of equity and changes in equity, including changes arising from those items recorded in comprehensive income. There have also been numerous consequential amendments made to other Sections.

These new Sections are effective for interim and annual financial statements with fiscal years beginning on or after October 1, 2007 for non-publicly accountable entities.

In December 2006, the Canadian Institute of Chartered Accountants issued Section 3862 Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation to replace Section 3861 Financial Instruments – Disclosure and Presentation. These new Sections are effective for interim and annual financial statements with fiscal years beginning on or after October 1, 2007, but may be adopted in place of Section 3861, before that date.

The Company expects to apply these new recommendations for its financial statements dated December 31, 2008. Transitional provisions are complex and vary based on the type of financial instruments under consideration, however, the Company does not expect the adoption of these new standards to have a material impact on its financial statements.

4. Investments

The Company has a credit card facility agreement with maximum credit available of \$25,000 (2006 - \$50,000, 2005 - \$50,000). As part of this agreement the Company is required to keep an equal amount invested in a GIC. Thus this amount is restricted until the credit card facility is withdrawn or cancelled.

Notes to Financial Statements

For the years ended December 31, 2007 and December 31, 2006 and for the period ended December 31, 2005

5. Intangible Assets

	December 31 2007	December 31 2006	Period ended December 31 2005
Seismic technology Licenses, opening cost	600,000	600,000	-
Accumulated amortization	(374,795)	(74,795)	-
Opening NBV	225,205	525,205	-
Acquired during the year	-	-	600,000
Amortization for the period	(225,205)	(300,000)	(74,795)
Closing NBV	-	225,205	525,205

6. Property and Equipment

	December 31 2007	December 31 2006	Period ended December 31 2005
Petroleum and natural gas assets	\$ 1,973,037	\$ 7,746,420	\$ 1,332,667
Write down of petroleum and natural gas assets	(473,037)	(6,246,420)	-
	1,500,000	1,500,000	1,332,667
Office furniture and equipment	24,808	24,808	18,371
	\$ 1,524,808	\$ 1,524,808	\$ 1,351,038
Accumulated depletion and depreciation	(19,060)	(15,114)	(3,801)
	\$ 1,505,748	\$ 1,509,694	\$ 1,347,237

Vecta has capitalized general and administrative costs directly related to the acquisition, exploration and development of petroleum and natural gas reserves for the period ended December 31, 2007 totalling \$340,000 (2006 - \$340,000, 2005 - \$70,000).

As at December 31, 2007, the Company incurred an impairment test write-down of \$473,037 (2006 - \$6,246,420, 2005 - NIL) related to oil and gas assets subject to the impairment test.

On June 6, 2007 Vecta received a Default Notice from one of their joint operators outlining that the Company was in default of the Participation Agreement. On August 30, 2007, the Operator listed a lien against the assets of the Company for \$250,023 and filed a security notice with the Alberta Personal Property Registry. The dispute was subsequently resolved and on January 24, 2008, the lien was discharged and default notice lifted.

Notes to Financial Statements

For the years ended December 31, 2007 and December 31, 2006 and for the period ended December 31, 2005

7. Asset Retirement Obligation

The asset retirement obligations result from net ownership interests in petroleum and natural gas assets, including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately \$86,250 (2006 - \$86,250, 2005 - \$50,000), the majority of which will be incurred after 2020. A credit-adjusted rate of 9% and an inflation rate of 2% were used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	December 31 2007	December 31 2006	For the period ended December 31 2005
Asset retirement obligations			
Balance, beginning of period	\$ 34,816	\$ 18,891	\$ -
Liabilities incurred in period	-	13,062	18,475
Accretion expense	3,240	2,863	416
Balance, end of period	\$ 38,056	\$ 34,816	\$ 18,891

8. Share Capital

a) Authorized

Unlimited number of common shares, issuable in series.

b) Common shares

	Number of shares	Amount
Balance, at incorporation	1	\$ -
Issue of flow-through common shares for cash (ii)	6,212,500	6,212,500
Issue of common shares for cash (ii)	1,787,500	1,519,375
Issue of common shares for cash (ii)	43,500	36,975
Issue of common shares for cash (ii)	151,012	128,360
Issue of common shares for farmout/license agreements (i)	1,000,000	1,000,000
Share issue costs, net of future income taxes of \$107,941		(662,114)
Balance as at December 31, 2005	9,194,513	\$ 8,235,096
Tax effect of flow-through share renouncements		(1,001,455)
Issue of common shares for cash (iii)/(iv)	600,000	540,000
Balance As at December 31, 2006 and 2007	9,794,513	\$ 7,773,641

Notes to Financial Statements

For the years ended December 31, 2007 and December 31, 2006 and for the period ended December 31, 2005

8. Share Capital (continued)

Common share purchase warrants

	Number of Warrants	Amount
Opening balance	-	\$ -
Issue of share purchase warrants for cash (ii)	991,006	297,302
Balance, December 31, 2005	991,006	\$ 297,302
Issue of share purchase warrants for cash (iii)	200,000	60,000
Balance, December 31, 2006	1,191,006	\$ 357,302
Expiry of share purchase warrants issued with units (iii)	(200,000)	(60,000)
Balance, December 31, 2007	991,006	\$ 297,302

Total share capital

	December 31		
	2007	2006	2005
Common Shares	\$ 7,773,641	\$ 7,773,641	\$ 8,235,096
Common Share purchase warrants	297,302	357,302	297,302
Total Share Capital	\$ 8,070,943	\$ 8,130,943	\$ 8,532,398

- i. In October 2005, the Company issued 1,000,000 common shares to Vecta Holdings ULC in exchange for service/license and farm out/participation agreements with a fair market value of \$1.0 million.
- ii. In November 2005, the Company raised \$8.2 million through a private placement of 1,982,012 units and 6,212,500 flow-through shares. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share at \$1.50 on or before the later of May 1, 2007 and six months after the common shares are listed and posted for trading on the TSX Stock Exchange or Venture Exchange. Share issue costs of \$662,114 (net of future income taxes of \$107,941) were incurred on the private placement. As at December 31, 2007 all Flow-Through share spending commitments have been met.
- iii. In July 2006, the Company raised \$400,000 through a private placement of 400,000 units. Each unit consisted of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share at \$1.50 on or before the later of May 1, 2007 and six months after the common shares are listed and posted for trading on the TSX Stock Exchange or Venture Exchange. The warrants expired December 31, 2007. No share issue costs were incurred.
- iv. In October 2006, the Company raised \$200,000 through a private placement of 200,000 common shares. No share issue costs were incurred.

Notes to Financial Statements

For the years ended December 31, 2007 and December 31, 2006 and for the period ended December 31, 2005

c) Options

The Company has a stock option plan under terms of which it will grant options to acquire common shares to certain officers, directors, employees and consultants. Under terms of the plan, up to 0.9 million shares have been reserved for issuance and no more than 10% of the outstanding shares may be issued to any one insider as defined by such plan. As at December 31, 2007, 780,000 (2006 – 780,000, 2005 – 600,000) options had been granted. Each stock option vests equally over two years and expires at the end of a two year term. The following table summarizes the change in the outstanding stock options.

	December 31, 2007		December 31, 2006		For the period ended December 31, 2005	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of period	780,000	\$ 1.00	600,000	\$ 1.00	-	\$ -
Granted to officers, directors, and employees	-	\$ -	180,000	\$ 1.00	600,000	\$ 1.00
Outstanding, end of period	780,000	\$ 1.00	780,000	\$ 1.00	600,000	\$ 1.00

The following table summarizes information about the stock options outstanding December 31, 2007:

Number Outstanding	Weighted Average Contractual Life	Weighted Average Exercise Price
600,000	0.0 years	\$ 1.00
30,000	0.54 years	\$ 1.00
150,000	1.55 years	\$ 1.00
780,000	0.70 years	\$ 1.00

On December 31, 2007, options for 780,000 common shares were outstanding with an exercise price of \$1.00 and a weighted-average remaining life of 0.70 years.

On December 31, 2007, 720,000 stock options were exercisable (2006 – 459,997, 2005 – 199,996)

d) Agent Warrants

Pursuant to the November 2005 private placement, the Company also issued 567,000 agent's warrants. Each agent's warrant entitles the holder thereof to acquire one Common share at a price of \$1.00 per share. Each agent's warrant shall be exercisable on the later of June 1, 2007 and the date six months after the common shares of the Company are listed on the TSX or Venture Exchange. There is no set expiry date in the contract. The agent's financing warrants are accounted for as a charge to share issuance costs and a credit to contributed surplus (see note 11). The fair value of the agent's warrants approximated \$100,447 or \$0.18 per warrant. The fair value of these warrants were estimated using the Black-Scholes option pricing model with an average risk-free interest rate of 3.8%, expected life of 18 months, volatility in the price of the Company's common shares of 50% and a dividend yield of 0%.

e) Performance Warrants

In conjunction with the November 2005 private placement, the Company issued 850,000 performance warrants to employees and directors. The terms and vesting of the performance warrants are as follows:

Notes to Financial Statements

For the years ended December 31, 2007 and December 31, 2006 and for the period ended December 31, 2005

- each performance warrant entitles the holder to acquire one common share with an exercise price of \$1.00 until December 13, 2015.
- vesting of the performance warrants is determined as follows:
 - i. If the net asset value is less than \$1.50, no warrants shall vest.
 - ii. If the net asset value is equal to or greater than \$1.50, but less than \$2.00, one third of the outstanding warrants shall vest.
 - iii. If the net asset value is equal to or greater than \$2.00, but less than \$3.00, two thirds of the outstanding warrants shall vest.
 - iv. If the net asset value is equal to or greater than the \$3.00, all the outstanding warrants shall vest

	December 31, 2007		December 31, 2006		For the period ended December 31, 2005	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of period	850,000	\$ 1.50	850,000	\$ 1.50	-	\$ -
Granted to officers, directors, and employees	-	\$ -	-	\$ -	850,000	\$ 1.50
Outstanding, end of period	850,000	\$ 1.50	850,000	\$ 1.50	850,000	\$ 1.50

e) Stock-based Compensation

Stock options and performance warrants granted are accounted for using the fair value method. The compensation cost that has been charged against earnings for the stock options and performance warrants was \$179,321 for the year ended December 31, 2007 (2006 - \$324,045, 2005 - \$56,068).

The fair market value of each option and performance warrant granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2006	2005
Weighted average fair value per option	\$ 0.21 – 0.28	\$ 0.21
Weighted average fair value per performance warrant	-	\$ 0.53
Dividend yield	nil	nil
Volatility	50%	50%
Risk-free rates	4.3%	3.8 - 4.3%
Expected life (years)	2 – 3 years	2 – 10 years

There were no options or performance warrants granted in 2007.

Notes to Financial Statements

For the years ended December 31, 2007 and December 31, 2006 and for the period ended December 31, 2005

9. Per share amounts

The weighted average numbers of shares outstanding for the determination of basic and diluted per share amount for the years ended December 31 are as follows:

	2007	2006	2005
Basic	9,794,513	9,411,499	7,202,885
Diluted	9,794,513	9,411,499	7,202,885

As at December 31, 2007, 991,006 share purchase warrants, 780,000 options, 850,000 performance warrants and 567,000 agent warrants were excluded from the dilution calculation as they were anti-dilutive.

10. Future income taxes

Future income tax expense differs from the amount that would be computed by applying the basic combined federal and provincial statutory income tax rate of 16.12% (2006 – 16.12%, 2005 –16.12%) to loss before taxes. The reasons for the differences are as follows:

	Year ended December 31		Period ended
	2007	2006	December 31
			2005
Loss before Income Taxes	\$ (1,437,708)	\$ (7,405,057)	\$ (220,696)
Statutory tax rate:	16.12%	16.12%	16.12%
Expected recovery	\$ (231,759)	\$ (1,193,695)	\$ (35,576)
Add (deduct):			
Non-deductible stock-based compensation	28,907	52,236	9,038
Resource Loss	-	14,604	3,293
Change in enacted tax rate	55,373	9,196	-
Change in future tax rates	(161,602)	(126,511)	(142,414)
Other	599	820	-
Change in valuation allowance	308,482	241,895	273,600
Future income tax expense (recovery)	\$ -	\$ (1,001,455)	\$ 107,941

Notes to Financial Statements

For the years ended December 31, 2007 and December 31, 2006 and for the period ended December 31, 2005

10. Future income taxes (continued)

The tax effects of temporary differences that give rise to the future tax assets and liabilities at December 31, 2007, December 31, 2006 and December 31, 2005 are as follows:

	Year ended December 31		Period ended
	2007	2006	December 31
			2005
Tax liabilities:			
Property and equipment	\$ -	\$ -	\$ -
Tax assets:			
Property and equipment	\$ 154,117	\$ 1,019	\$ 21,668
Non capital losses	590,295	382,878	71,695
Share issue costs	77,674	130,533	180,097
Asset retirement obligation	1,891	1,065	140
Less: valuation allowance	(823,977)	(515,495)	(273,600)
Net future tax asset (liability)	\$ -	\$ -	\$ -

As at December 31, 2007, the Company has Canadian non-capital losses available to carry forward to future years of \$2,035,500 (2006 - \$1,178,450, 2005 - \$213,250). These non-capital losses if not utilized will expire as follows:

Year	Amount
2015	\$ 213,250
2026	\$ 965,200
2027	\$ 857,050

The benefit of future tax assets has not been recognized in the financial statements due to not meeting the "more likely than not criteria".

Notes to Financial Statements

For the years ended December 31, 2007 and December 31, 2006 and for the period ended December 31, 2005

11. Contributed Surplus

A reconciliation of contributed surplus resulting from the prospective stock-based compensation adoption for stock options granted since December 1, 2005 is provided below:

	Period ended December 31		
	2007	2006	2005
Balance, beginning of year	\$ 480,560	\$ 156,515	\$ -
Stock-based compensation expense	179,321	324,045	56,068
Agent's financing warrants expense	-	-	100,447
Expiry of share purchase warrants	60,000	-	-
Balance, end of year	\$ 719,881	\$ 480,560	\$ 156,515

12. Financial instruments

The fair values of the Company's cash, accounts receivable, investments, account payables and accrued liabilities approximate their carrying amounts due to the short-term nature of these financial instruments.

The Company's accounts receivables are primarily with industry joint venture parties and are subject to normal industry credit risks. As the Company extends unsecured credit to these entities, the collection of any receivables may be affected by changes in the economic environment or other conditions. Management believes the risk is mitigated by the financial position of the entities, and the Company's practice of requesting cash call advances for funds estimated to be incurred.

13. Related party transactions

Included in general and administrative expenses for the year ended December 31, 2007 are consulting fees of \$257,022 (2006 - \$285,730, 2005 - \$60,578) paid to companies controlled by directors of the Company. As at period/year end \$nil (2006 - \$12,720, 2005 - \$13,250) remains in accounts payable and accrued liabilities.

Included in general and administrative expense for the year ended December 31, 2007 are consulting fees of \$ nil (2006 - \$25,289, 2005 - \$11,202) paid to a Company with a Common Director with Vecta. As at period/year end \$nil (2006 - \$nil, 2005 - \$11,202) remains in accounts payable and accrued liabilities.

Also included in general and administrative expenses for the year ended December 31, 2007 are legal fees of \$69,905 (2006 - \$39,742, 2005 - \$90,639) paid to the Company's Corporate Secretary's law firm. As at period/year end \$51,875 (2006 - \$26,823, 2005 - \$76,204) remains in accounts payable and accrued liabilities.

During the period ended December 31, 2005 the Company entered into a farmout agreement and two Seismic technology license agreements with a Company with common directors and a small indirect ownership interest in Vecta. In exchange for the farmout agreements and technology licenses, Vecta gave the Company 1 million common shares valued at \$1.00 per common share.

These transactions occurred in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to be the related parties.

Notes to Financial Statements

For the years ended December 31, 2007 and December 31, 2006 and for the period ended December 31, 2005

14. Change in non-cash working capital

	Year ended December 31		For the period ended
	2007	2006	December 31
Accounts receivable	\$ 706,506	\$ (337,424)	\$ (396,114)
Investments	25,000	-	(50,000)
Prepaid expenses and deposits	21,864	(8,364)	(13,500)
Accounts payable and accrued liabilities	(115,815)	408,027	636,642
	\$ 637,555	\$ 62,239	\$ 177,028
Less: change in non-cash working capital related to investing	(180,047)	408,713	477,738
Change in non-cash working capital related to operations	\$ 817,602	\$ (346,474)	\$ (300,710)

15. Commitments

As at December 31, 2007, the Company had \$29,268 in rental commitments for 2008 on a sublease for office premises.

As at October 19, 2007, the Company had entered into a drilling commitment with a joint operating partner for \$186,450.

In order to extend the use of the licenses classified in intangible assets, the Company must spend \$500,000 to acquire seismic data in Canada by October 1, 2008. This minimum annual amount will increase on an annual basis by 20% for each subsequent year.

Notes to Financial Statements

For the years ended December 31, 2007 and December 31, 2006 and for the period ended December 31, 2005

16. Subsequent events

On February 1, 2008, the Company farmed-out their 13.125% working interest in the Brewster area to Kroes Energy Inc. The Company retained a convertible royalty until payout and after payout will maintain 50% working interest.

On February 8, 2008 Vecta Energy Corporation ("Vecta") and Kroes Energy Inc. ("Kroes") (TSX VENTURE:KRS) announced that they have entered into an agreement dated January 28, 2008, whereby Kroes and Vecta will merge, as equals, all of their businesses and operations. The merger will be accomplished by Kroes making a take-over bid for all of the issued and outstanding shares of Vecta.

If the take-over bid is successful, Kroes will issue 36,000,000 common shares to the shareholders of Vecta and to the holder of the Vecta debenture (see below for further information). The take-over bid by Kroes and the completion of the merger are subject to the conclusion of a definitive agreement between the parties, finalization of due diligence and regulatory approval. This transaction is the result of arm's length negotiations between the parties. Prior to these negotiations there existed no relationship between the two parties. There is no finder's fee to be paid.

Following completion of this transaction Kroes will continue as a junior oil and gas company listed on the TSX Venture Exchange.

On February 28, 2008, the Company obtained a loan facility from Kroes Energy Inc. for up to a maximum of \$150,000 and bearing interest at 2% above prime. As of March 31, 2008 Vecta has received \$120,000 with respect to the loan facility to cover expenses prior to closing the transaction with Kroes.

On March 7, 2008, the Company obtained a secured debenture from a Company with two Directors in Common with Vecta in the amount of \$850,000 and bearing interest at 8% per annum. The secured debenture and interest is payable upon the earlier of: the maturity date June 30, 2008 or the occurrence of a Change of Control of the Corporation. The debenture is secured by the property and equipment of the Corporation up to the value of the debenture.