Consolidated Financial Statements of

Iteration Energy Ltd.

December 31, 2008

AUDITORS' REPORT

To the Shareholders of
Iteration Energy Ltd.

We have audited the consolidated balance sheets of Iteration Energy Ltd. as at December 31, 2008 and 2007 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Calgary, Canada
March 20, 2009

Chartered Accountants

Iteration Energy Ltd.

Consolidated Balance Sheets

As at
(in thousands of dollars)

	December 31, 2008	December 31, 2007
ASSETS (Note 6)		
Current		
Cash	**$6,832**	$1,230
Accounts receivable (Note 12(d))	**43,996**	15,942
Prepaids and other current assets	**10,846**	2,640
	61,674	19,812
Property, plant and equipment (Notes 3 and 5)	**973,529**	285,354
Goodwill (Note 4)	**-**	33,899
	$1,035,203	$339,065
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (Note 6)	**$266,800**	$50,370
Accounts payable and accrued liabilities (Note 7)	**71,004**	30,454
Stock based compensation payable (Notes 9(d) and (e))	**-**	7,520
	337,804	88,344
Future income taxes (Notes 3 and 10)	**92,539**	7,510
Leasehold inducements	**193**	199
Asset retirement obligation (Note 8)	**43,323**	18,897
	473,859	114,950
Commitments and contingencies (Notes 11 and 13)		
Subsequent event (Note 17)		
Shareholders' equity		
Share capital (Note 9)	**805,301**	238,586
Warrants outstanding (Note 9(e))	**-**	3,934
Deficit	**(243,957)**	(18,405)
	561,344	224,115
	$1,035,203	$339,065

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

"signed"
Don Archibald
Chairman

"signed"
Robert Waters
Chair Audit Committee

Iteration Energy Ltd.

Consolidated Statements of Loss, Comprehensive Loss and Deficit

	Year Ended December 31,	
(in thousands of dollars, except per share amounts)	**2008**	2007
Revenue		
Production revenue	**$361,840**	$101,976
Royalties	**(74,473)**	(20,772)
	287,367	81,204
Other production revenue	**2,139**	339
	289,506	81,543
Expenses		
Production	**67,089**	21,685
Transportation	**5,902**	3,128
General and administrative	**10,188**	5,460
Stock based compensation expense (Notes 9(d) and (e))	**2,159**	3,412
Interest on current debt	**9,327**	2,264
Depletion, depreciation and accretion	**139,329**	60,925
Impairment of goodwill (note 4)	**239,108**	-
Provision for bankruptcy: SemGroup LP (Note 12(d))	**13,854**	-
Non-cash charge related to warrants (Note 9(e))	**3,547**	-
Recovery of investment tax credits	**(2,951)**	(1,131)
	487,552	95,743
Loss before income taxes	**(198,046)**	(14,200)
Income taxes (Note 10)		
Current income tax expense	**929**	197
Future income tax expense (recovery)	**16,859**	(4,955)
	17,788	(4,758)
Net loss and comprehensive loss	**(215,834)**	(9,442)
Deficit, beginning of year	**(18,405)**	(8,963)
Charge on modification of warrant terms (Note 9(e))	**(9,718)**	-
Deficit, end of year	**$(243,957)**	$(18,405)
Basic and diluted loss per common share (Note 9(f))	**$(1.46)**	$(0.15)

See accompanying notes to the consolidated financial statements

Iteration Energy Ltd.

Consolidated Statements of Cash Flows

	Year Ended December 31,	
(in thousands of dollars)	**2008**	2007
OPERATING ACTIVITIES		
Net loss	**$(215,834)**	$(9,442)
Add (deduct) non-cash items:		
Depletion, depreciation and accretion	**139,329**	60,925
Impairment of goodwill (note 4)	**239,108**	-
Recovery of investment tax credits	**(2,951)**	(1,131)
Future income tax expense (recovery)	**16,859**	(4,955)
Amortization of leasehold inducements	**(172)**	(132)
Stock-based compensation expense (recovery) (Notes 9(d) and (e))	**(7,509)**	3,412
Non-cash charge related to warrants (Note 9(e))	**3,547**	-
Asset retirement expenditures (note 8)	**(547)**	(171)
	171,830	48,506
Net change in non-cash operating working capital (Note 14)	**(25,700)**	(4,330)
	146,130	44,176
INVESTING ACTIVITIES		
Proceeds on sale of property, plant and equipment	**838**	122
Acquisition of subsidiary	**(778)**	-
Acquisition of oil and gas properties	**(59,742)**	(55,670)
Additions to oil and gas properties	**(156,187)**	(88,580)
Additions to other capital assets	**(1,131)**	(71)
Net change in non-cash investing working capital (Note 14)	**(9,715)**	8,661
	(226,715)	(135,538)
FINANCING ACTIVITIES		
Proceeds from (repayment of) bank indebtedness	**104,430**	21,730
Common shares issued (Note 9(e))	**2,900**	69,697
Settlement of outstanding warrants (Note 9(e))	**(21,112)**	-
Share issue costs (Note 9(b))	**(31)**	(4,057)
	86,187	87,370
Increase (decrease) in cash	**5,602**	(3,992)
Cash, beginning of year	**1,230**	5,222
Cash, end of year	**$6,832**	$1,230

See Note 14 for supplemental disclosure

See accompanying notes to the consolidated financial statements

Iteration Energy Ltd.

Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2008 and 2007
(Tabular amounts in thousands of dollars, unless otherwise noted)

1. NATURE OF OPERATIONS

Iteration Energy Ltd. ("Iteration" or the "Company") is a public company that trades on the Toronto Stock Exchange and is incorporated under the Business Corporations Act (Alberta). Iteration is engaged in the exploration, development and production of petroleum and natural gas in Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Iteration have been prepared in accordance with Canadian generally accepted accounting principles. The timely preparation of financial statements requires that management make estimates and assumptions, and use judgment regarding assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts. In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

a) Basis of Consolidation

These consolidated financial statements include the accounts of Iteration Energy Ltd., its wholly owned subsidiaries (Cyries Energy Inc, Iteration Energy Inc. and Cyries Wyoming Inc.) and its wholly owned partnerships (Iteration Energy and Iteration Energy Partnership 2007). All inter-company transactions are eliminated on consolidation.

b) Cash

Cash consists of amounts in various accounts with financial institutions maintained by the Company.

c) Property, plant and equipment

Cost

The Company follows the full cost method of accounting whereby all costs relating to the acquisition of, exploration for and development of oil and gas reserves are capitalized in a single Canadian cost center. Such costs include lease acquisition, lease rentals on undeveloped properties, geological and geophysical, drilling both productive and non-productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities.

Proceeds from the sale of oil and gas properties and related equipment are applied against capitalized costs with no gain or loss recognized unless such a disposition would change the depletion rate by 20 percent or more. Gains and losses are recognized upon the disposition of other assets.

Other capital assets are recorded at cost.

Depletion and depreciation

All costs of acquisition, exploration and development of oil and gas reserves, associated tangible plant and equipment costs (net of salvage value), and estimated costs of future development of proven undeveloped reserves are depleted and depreciated by the unit of production method based on estimated gross proved reserves as determined by independent engineers.

Costs of unproved properties and seismic costs on undeveloped land are initially excluded from oil and gas properties for the purpose of calculating depletion. When proven 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 costs subject to depletion.

The relative volumes of oil and natural gas reserves and production are converted to equivalent barrels of oil based on the relative energy content of each product on a 1 barrel to 6 thousand cubic feet basis.

Depreciation of capital assets not related to oil and gas properties is provided using the declining balance method at rates between 20 and 30%. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Impairment

The Company calculates its ceiling test by comparing the carrying value of its oil and gas properties to the sum of undiscounted cash flows expected to result from the future production of proved reserves and the sale of unproved properties. Cash flows are based on third party quoted forward prices, adjusted for transportation and quality. Should the ceiling test result in an excess of carrying value, the Company would then measure the amount of impairment by comparing the carrying amounts of its oil and gas properties to an amount equal to the estimated net present value of expected future cash flows from proved plus probable reserves and the sale of unproved properties. A risk-free interest rate of 6.5% (prior to January 1, 2007 6.0%) is used to arrive at the net present value of the future cash flows.

The carrying value of undeveloped properties (land and seismic data) is reviewed periodically and written down to net realizable value if impairment is determined.

d) Goodwill

Goodwill relating to acquisitions is recorded at cost when the total purchase price exceeds the fair value of the identifiable assets and liabilities acquired and is not amortized. In accordance with its accounting policies, the Company tests for potential impairment of goodwill on an annual basis or if events occur that indicate that impairment might exist. Impairment exists if the estimated fair value of the Company is less than the book value of the Company. If the fair value (effectively share capital outstanding times market share price as at the date of the test) of the reporting unit (effectively the Company), is less than the book value (effectively Shareholders' Equity) impairment is measured by allocating the fair value to the identifiable assets and liabilities as if the Company had been acquired for a purchase price equal to its fair value. The excess of the fair value of the Company over the amounts assigned to the assets and liabilities is the fair value of the goodwill. Any excess of the book value of the goodwill over this implied fair value of goodwill is the impairment amount. Impairment is charged to income in the period in which it occurs.

e) Leases

Leases that transfer substantially all the benefits and risks of ownership to the Company are recorded as capital leases. Assets under capital lease are included in property, plant and equipment with offsetting long-term capital lease obligations being recorded as liabilities. All other leases are classified as operating leases under which lease costs are expensed in the period incurred.

f) Asset Retirement Obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site by site basis. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statement of earnings (loss). The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized using the unit of production method based on estimated gross proven reserves as determined by independent engineers. Actual costs incurred upon the settlement of the obligations are charged against the liability.

g) Leasehold Inducements

The value of leasehold inducements received is deferred and amortized on a straight-line basis as a reduction of rental expense over the term of the related lease.

h) Revenue Recognition

Oil and natural gas sales are recognized as revenue when the commodities are delivered to purchasers and ultimate collection is reasonably assured.

i) Joint Operations

The Company conducts exploration, development and production activities jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

j) Stock Based Compensation

Under the Company's stock option plan, options to purchase common shares may be granted to officers, employees and consultants at current market prices.

The Company's stock option plan as approved by the Company's shareholders provides stock option holders the choice upon exercise to receive a cash payment in exchange for surrendering the option. The cash payment is equal to the appreciated value of the stock option as determined based on the difference between the option's exercise price and the Company's share price at the time of exercise. The Company records a liability for the cash payment and a stock based compensation expense or recovery dependent on changes in the Company's share price and the number of options vested.

k) Future Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Income tax expense for the year is the tax payable for the year and any change during the year in future income tax assets and liabilities. A valuation allowance is recorded to the extent that there is uncertainty regarding utilization of future tax assets.

l) Per Common Share Amounts

The Company uses the treasury stock method to determine the dilutive effect of stock options and warrants. This method assumes that proceeds from the exercise of stock options and warrants would be used to purchase common shares at the average market price during the year.

m) Measurement Uncertainty

The amount recorded for depletion and depreciation of oil and gas properties, the provision for asset retirement obligations, the ceiling test calculation and goodwill impairment calculation are based on estimates of gross proven reserves, production rates, commodity prices, future costs and other relevant assumptions. Accruals for revenue and expenses are prepared based on estimates when actual amounts are not yet known. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

n) Flow-through Common Shares

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The estimated tax benefits transferred to shareholders are recorded as a future income tax liability with a corresponding reduction to share capital when the expenditures are renounced.

o) Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods is dependent on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities”.

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values measured in OCI. Financial assets “held-to-maturity”, “loans and receivables”, and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization.

Cash is designated as “held-for-trading” and is measured at carrying value, which approximates fair value due to the short-term nature of this instrument. Accounts receivable are designated as “loans and receivables”. Bank indebtedness, accounts payable, and accrued liabilities are designated as “other liabilities”.

All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value. Associated gains and losses are included in net earnings (loss) in the period in which they arise.

Changes in Accounting Policies

The CICA issued several new accounting standards: Section 1400 *General Standards of Financial Statement Presentation*, Section 1535 *Capital Disclosures*, Section 3031 *Inventories*, Section 3862 *Financial Instruments – Disclosures*, and Section 3863 *Financial Instruments – Presentation*. These standards were adopted by the Company and became effective January 1, 2008.

Section 1400 *General Standards of Financial Statement Presentation* was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The adoption of this standard did not have an impact on the Company's financial statements.

Section 1535 *Capital Disclosures,* establishes standards for disclosing information regarding an entity's capital and how it is managed. The section specifies the disclosure of i) an entity's objectives, policies, and processes for managing capital; ii) quantitative data about what the entity regards as capital; iii) whether the entity has complied with any capital requirements; and iv) if it has not complied, the consequences of such non-compliance. The required disclosures are provided in Note 15.

Section 3031 *Inventories,* requires inventories to be measured at the lower of cost or net realizable value; disallows the use of a last-in first-out inventory-costing methodology; and requires that, when circumstances which previously caused inventories to be written down below cost or net realizable value no longer exist, the amount of the write-down is to be reversed. The adoption of this standard had no material impact on the Company's consolidated financial statements.

Sections 3862 *Financial Instruments – Disclosures,* and Section 3863 *Financial Instruments – Presentation,* replace Section 3861 *Financial Instruments – Disclosure and Presentation*, which revises and enhances financial instrument disclosure requirements and leaves unchanged its presentation requirements. The objective of Section 3862 is to provide financial statement disclosure to enable users to evaluate the significance of financial instruments for the Company's financial position and performance. The section also requires increased disclosure on the nature and extent of risks arising from financial instruments that the Company is exposed to during the reporting period and at the balance sheet date and how the Company is managing those risks. The purpose of Section 3863 is to enhance the financial statement users' understanding of the significance of financial instruments to the Company's financial position, performance and cash flows.

Future Accounting Policies

In January 2009, the CICA issued three new accounting standards, Section 1582 *Business Combinations,* Section 1601 *Consolidated Financial Statements* and Section 1602 *Non controlling interests* each of which are effective for fiscal years beginning on or after January 1, 2011 and further align Canadian GAAP with IFRS. Earlier adoption of these recommendations is permitted.

Section 1582 applies prospectively to the Company's business combinations on or after January 1, 2011. This section replaces Section 1581 *Business Combination* and harmonizes the Canadian accounting standards with International Financial Reporting Standards ("IFRS"). Under the new guidance, the purchase price used in a business combination will be the fair value of the shares exchanged at their market price on the date of the exchange. Currently, when shares are issued, they are valued based on the market price for a reasonable period before and after the date the acquisition is agreed upon and announced. Under the new guidelines, all acquisition costs are expensed where currently they are capitalized as part of the acquisition costs. There are also a number of other differences between the new guidelines and current GAAP.

Section 1601 and 1602 change the accounting and reporting of ownership interests in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity, but separately from parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income (loss). In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interest of the non-controlling owners. The Company does not expect the adoption of these pronouncements to impact its consolidated financial statements in fiscal 2011.

The Canadian Accounting Standards Board has now confirmed that the use of IFRS will be required in 2011 for publicly accountable, profit-oriented enterprises. IFRS will replace current Canadian GAAP followed by the Company. The Company will be required to begin reporting under IFRS effective January 1, 2011 and will be required to provide information following IFRS for the comparative period. The Company is currently developing a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information. The key elements of the plan include:

- determine appropriate changes to accounting policies and required amendments to financial disclosures;
- identify and implement changes in associated processes and information systems;
- comply with internal control requirements;
- educate and train internal and external stakeholders.

At December 31, 2008, the Company had completed a diagnostic study of the anticipated impact of the transition to IFRS. The Company is currently analyzing the accounting policy alternatives and identifying implementation options for the corresponding process changes. As IFRS is expected to change prior to 2011, the impact of IFRS on the Company's consolidated financial statements is not reasonably determinable at this time. The Company will continue to monitor standards development as issued by the IASB and AcSB as well as regulatory developments as issued by the Canadian Security Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

Effective January 1, 2009, the Company will be adopting the new CICA Handbook Section 3064, *Goodwill and Intangible Assets,* which converges Canadian GAAP for goodwill and intangible assets with IFRS. The new standard provides more comprehensive guidance on intangible assets, particularly for internally developed intangible assets.

3. ACQUISITIONS AND DISPOSITIONS

Cyries Energy Inc.

On March 7, 2008, Iteration acquired Cyries Energy Inc. ("Cyries"), by Plan of Arrangement (the "Arrangement"). Under the Arrangement, Iteration issued 93,990,607 Iteration common shares to acquire the issued and outstanding common shares, warrants and performance shares of Cyries. The value attributed to each Iteration common share was $5.99 per share, representing the volume weighted average trading price on the Toronto Stock Exchange for an Iteration common share for the period from February 27, 2008 to March 6, 2008. This period includes the three trading days before and after Iteration's announcement on March 3, 2008 of an increase in the exchange ratio for the acquisition.

Upon completion of the Arrangement, Cyries became a wholly owned subsidiary of Iteration with the existing Iteration shareholders, option holders and warrant holders holding approximately 47% of the combined entity. Although Cyries shareholders held 53% of the Iteration Common Shares on a diluted basis following the arrangement, the transaction has been accounted for as an acquisition of Cyries by Iteration, recognizing that Iteration is the surviving legal entity, Iteration paid a premium to acquire Cyries and Iteration's existing management and Board of Directors retained their positions. The financial statements for the year ended December 31, 2008 incorporate the operations of Iteration Energy Ltd., Iteration Energy Inc., Iteration Energy and Iteration Energy 2007 Partnership for the period from January 1, 2008 to December 31, 2008 and the operations of Cyries and its subsidiaries for the period from March 8, 2008 to December 31, 2008.

The acquisition is being accounted for using the purchase method and, the purchase price was allocated as follows:

($000's)	
Furniture and equipment	$969
Property, plant and equipment	599,448
Goodwill	205,208
Bank debt	(111,223)
Working capital deficiency	(29,827)
Future income tax liability	(75,950)
Asset retirement obligation	(14,275)
Total purchase price	$574,350
Consideration was comprised of :	
Common shares	$563,004
Transaction costs	11,346
Total consideration	$574,350

Peace River Arch Partnership

On September 28, 2007, with an effective date of June 1, 2007, the Company purchased 100% of the partnership interests of the Peace River Arch Partnership from an arm's length third party for $51,057,000 after adjustments typical for this type of transaction. The partnership owns producing properties located in the Peace River Arch area of North West Alberta and the Manyberries area in South East Alberta. The results of operations for the Peace River Arch Partnership have been included in the consolidated financial statements from the September 28, 2007 acquisition date.

The acquisition was accounted for by the purchase method and the purchase price was allocated as follows:

($000's)	
Property, plant and equipment	$55,937
Goodwill	13,758
Future income tax liability	(11,863)
Asset retirement obligation	(6,775)
Total purchase price	$51,057
Consideration was comprised of :	
Cash	$51,057
Total consideration	$51,057

4. GOODWILL

In accordance with generally accepted accounting principles, on an annual basis, or more frequently if circumstances may indicate that impairment may occur, the Company conducts a goodwill impairment test. Goodwill impairment is a two-step process. In the first step, the Company compares the fair value (effectively share capital outstanding times market share price as at the date of the test) of the reporting unit (effectively the Company), to the carrying amount, including goodwill (effectively Shareholders' Equity). If the carrying value of the reporting unit exceeds its fair value, goodwill is potentially impaired and step two of the impairment test must be performed. In step two, the Company compares the estimated fair value of the goodwill of the reporting unit (again effectively the Company) to its carrying value. If it is concluded that an impairment to goodwill exists, a reduction in the carrying value of the goodwill is recorded in the consolidated balance sheet and recognized as a non-cash impairment charge in income.

The Company completed step one of the goodwill impairment test at year end. In performing the goodwill assessment, the Company used current market capitalization as the best evidence of fair value. As a result of the extreme volatility which has occurred within the capital markets over the past several months, principally due to the global impact of the sub-prime mortgage write-downs in the United States and the volatility of commodity prices, global equity markets have fallen significantly. The market value of the Company’s common shares has fallen dramatically and, as of the date of these financial statements, the Company determined that goodwill was potentially impaired since the estimated fair value of the Company was less than its carrying value. As a result, the Company estimated the step two goodwill impairment by determining the implied fair value of the goodwill in the same manner as if it had acquired the reporting unit as of the date of the assessment.

In completing the second step of the goodwill impairment test, management fair valued the Company’s reserves and other tangible and intangible assets. As a result of the dramatic decline in commodity prices over the past several months, combined with the extreme volatility in the Canadian dollar exchange rate, management has determined that based on the second step of the goodwill impairment test, goodwill is impaired. As of the date of these financial statements, management’s best estimate of this impairment is $239 million. This impairment has been recorded in these financial statements as a reduction in goodwill and a non-cash charge to income.

Due to the inherent uncertainty involved in making these estimates, and the management judgment required in an analysis of goodwill impairment, actual financial results could differ from those estimated. Changes in expected financial results or other underlying assumptions would have a significant impact on either the fair value of the Company or the amount of the goodwill impairment charge.

The goodwill impairment charge does not affect the Company’s liquidity, funds from operations or debt covenants and will not impact future operations.

5. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2008 ($000’s)	December 31, 2007 ($000’s)
Oil and gas properties	**$1,290,246**	$467,281
Other	**2,925**	753
	1,293,171	468,034
Less accumulated depletion and depreciation	**319,642**	182,680
	$973,529	$285,354

At December 31, 2008, unproved properties and seismic expenditures amounting to $182,295,000 (December 31, 2007: $46,748,000) have been excluded from the depletion calculation. Future development costs on proven undeveloped reserves of $75,142,000 (December 31, 2007: $24,744,000) are included in the depletion calculation.

For the year ended December 31, 2008, the Company capitalized $3,625,000 (December 31, 2007: $2,453,000) of overhead directly related to exploration and development activities.

Iteration performs a ceiling test at least annually in accordance with the Canadian Institute of Chartered Accountants’ full cost accounting guideline. No write-down was required for the year ended December 31, 2008 based on the following expected future commodity prices.

	Edmonton Light Crude Oil $/Bbl (Cdn)	Alberta AECO Spot Price $/Gigajoule (Cdn)	British Columbia Westcoast Station 2 $/MMBtu (Cdn)	Edmonton NGL Mix $/bbl (Cdn)
2009	65.35	6.82	6.27	42.44
2010	72.78	7.56	7.01	46.29
2011	79.95	7.84	7.29	50.42
2012	86.70	8.38	7.83	54.50
2013	94.97	9.20	8.65	59.80
Thereafter		2% annual increase		

6. BANK INDEBTEDNESS

Bank indebtedness represents the drawn portion of a syndicated facility. The syndicated facility provides for maximum borrowings of $300 million. There are three components to the syndicated facility. The first is a $260 million term facility which can be used to fund the Company's capital program and matures on April 30, 2009. The maturity date of the facility may be extended for a period of 364 days, if requested by the borrower and accepted by the lender. The second component is a $15 million working capital revolving facility, which is payable on demand. The third component of the facility is a supplemental facility for $25 million which matures on April 30, 2009.

Under the terms of the first two components of the facility, the Company may borrow by way of:

i) Bankers acceptances in Canadian dollars bearing interest at the bankers acceptance rate plus a margin, ranging from 165 to 275 basis points, depending on the ratio of funded debt to trailing cash flow;

ii) LIBOR based loans in United States dollars bearing interest at the LIBOR rate plus a margin, ranging from 165 to 275 basis points, depending on the ratio of funded debt to trailing cash flow;

iii) Prime rate loans in Canadian dollars bearing interest at the Royal Bank of Canada prime rate plus 65 basis points should the ratio of funded debt to trailing cash flow be less than 2.5 to 1 and at Royal Bank of Canada prime plus 175 basis points should the ratio of funded debt to trailing cash flow be greater than 2.5 to 1; and

iv) US Base Rate loans in Unites States dollars bearing interest at the Royal Bank of Canada US base rate plus 65 basis points should the ratio of funded debt to trailing cash flow be less than 2.5 to 1 and at Royal Bank of Canada prime plus 175 basis points should the ratio of funded debt to trailing cash flow be greater than 2.5 to 1.

Under the terms of the $25 million supplemental facility, the Company may borrow by way of Canadian or United States prime rate loans, banker's acceptances or LIBOR loans. The margin charged by the syndicate, over and above the base rates for this component of the facility are as follows:

i) For borrowings by way of banker's acceptances in Canadian dollars, the banker's acceptance rate plus a margin, ranging from 275 to 400 basis points, depending on the ratio of funded debt to trailing cash flow;

ii) For borrowings by way of LIBOR based loans in United States dollars, the LIBOR rate plus a margin, ranging from 275 to 400 basis points, depending on the ratio of funded debt to trailing cash flow;

iii) For borrowings by way of prime rate loans in Canadian dollars, the Royal Bank of Canada prime rate plus a margin ranging from 175 to 300 basis points, depending on the ratio of funded debt to trailing cash flow; and

iv) For borrowings by way of US Base Rate loans in United States dollars, the US base rate plus a margin ranging from 175 to 300 basis points, depending on the ratio of funded debt to trailing cash flow.

The facility is secured by a $500 million fixed and floating charge debenture.

As at December 31, 2008, $260 million of indebtedness was in the form of 30 day bankers acceptances bearing interest at 3.07%. The remaining $6.8 million of indebtedness outstanding was in the form of prime based loans bearing interest at 4.15%.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities consist of the following:

	December 31, 2008 ($000's)	December 31, 2007 ($000's)
Trade accounts payable	**$57,474**	$21,994
Joint venture accounts payable	**3,790**	1,945
Royalties payable	**9,740**	6,515
Total	**$71,004**	$30,454

8. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligations were estimated by management based on the Company's net working interest in all wells and facilities, estimated costs to reclaim and abandon wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company estimates the undiscounted cash flows related to asset retirement obligations, adjusted for inflation, to be incurred over the estimated reserve life of the underlying assets (from 2009 through 2036) will total approximately $98,079,000 (December 31, 2007: $39,281,000). The estimated fair value of the obligation at December 31, 2008 is $43,323,000 (December 31, 2007: $18,897,000) using a discount rate of eight and one half percent for obligations incurred subsequent to September 30, 2008 (six and one half percent prior thereto) and an inflation rate of two percent. As at December 31, 2008, no funds have been set aside to settle this obligation.

	December 31, 2008 ($000's)	December 31, 2007 ($000's)
Balance, beginning of year	**$18,897**	$9,198
Liabilities incurred on acquisition of properties	**19,854**	6,775
Increase in liabilities from drilling activity	**2,848**	2,262
Accretion expense	**2,271**	833
Settlement of liabilities	**(547)**	(171)
Balance, end of year	**$43,323**	$18,897

The Company calculates the asset retirement obligation based on estimates of the date of abandonment, abandonment costs, and inflation. These amounts are then discounted to a present value amount. The estimates used are as follows:

Abandonment and reclamation costs:	
Well bore and surface reclamation	
Less than 1,750 meters	$18,972 per well
More than 1,750 meters	$26,622 per well
Surface reclamation	
Natural gas wells	$19,482 per well
Oil wells	$26,622 per well
Pipelines	$10,200 per pipeline segment
Roads	$15,300 per km
Batteries	$15,300 per battery
Compressors	$204,000 per compressor
Inflation	2 % per annum
Discount rate	8.5% (prior to October 1, 2008, 6.5%) per annum

9. SHARE CAPITAL

(a) Authorized

Unlimited number of voting common shares without par value.
Unlimited number of preferred shares issuable in series

(b) Common Shares Issued

	Year ended December 31, 2008		Year ended December 31, 2007	
	Number of Shares	Amount ($000's)	Number of Shares	Amount ($000's)
Balance, beginning of year	**71,029,780**	**$238,586**	57,429,847	$175,195
Shares issued on public offerings	**-**	**-**	12,977,400	67,892
Shares issued on corporate acquisition (note 3)	**93,990,607**	**563,004**	-	-
Shares issued on exercise of warrants	**1,000,000**	**3,733**	278,333	1,039
Shares issued on exercise of stock options	**-**	**-**	344,200	998
Share issue costs, net of tax effect of $9,000 (2007: $686,000)	**-**	**(22)**	-	(2,795)
Tax benefits renounced on prior year flow-through share offering	**-**	**-**	-	(3,743)
Balance, end of year	**166,020,387**	**$ 805,301**	71,029,780	$238,586

(c) Flow-Through Shares

During 2006, the Company issued common shares on a flow-through basis for gross proceeds of $12,075,000 to finance certain oil and gas expenditures to be incurred in 2007. The renouncement of these expenditures was made to the purchasers of these shares in 2007 and accordingly, share capital was reduced by the amount of the tax benefits associated with these expenditures ($3,743,000).

(d) Stock Options

The Company has a stock option plan, which was amended with shareholder approval on June 20, 2008 that provides for the issuance of options to its officers, employees and consultants allowing for the acquisition of up to a fixed maximum of 16,000,000 common shares. This represents less than 10% of the currently issued and outstanding common shares. The dates on which options vest are set by the Compensation Committee of the Board of Directors at the time of grant. The exercise price of an option granted is the closing price of the Company's stock on the last trading date prior to the grant date. The dates on which options expire are also set by the Board of Directors at the time of grant and cannot exceed ten years. Outstanding stock options to acquire common shares through the stock option plan are as follows:

	Year ended December 31, 2008		Year ended December 31, 2007	
	Number of Options	**Weighted average exercise price** $	Number of Options	Weighted average exercise price $
Outstanding, beginning of year	**6,568,789**	**3.49**	5,884,222	3.22
Granted	**5,343,065**	**5.47**	1,079,500	4.76
Exercised for shares	**-**		(344,200)	(2.90)
Exercised for cash	**(1,642,409)**	**(2.94)**	(667)	(4.90)
Forfeited	**(487,000)**	**(5.70)**	(50,066)	(4.49)
Outstanding, end of year	**9,782,445**	**$4.55**	6,568,789	3.49
Options exercisable, end of year	**3,759,285**	**$3.36**	3,236,062	3.11

The following table summarizes information about the stock options outstanding at December 31, 2008:

Range of exercise prices	Number outstanding December 31, 2008	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number exercisable December 31, 2008	Weighted average exercise price $
$0.70 to $2.89	331,000	3.88	1.97	-	-
$2.90 to $4.00	3,621,038	1.98	3.13	2,779,638	2.97
$4.01 to $5.00	1,987,867	2.50	4.55	895,372	4.39
$5.01 to $9.00	3,842,540	3.25	6.12	84,275	5.19
	9,782,445	2.65	4.55	3,759,285	3.36

The Company's stock option plan provides stock option holders the choice, upon exercise, to receive a cash payment in exchange for surrendering the option. The cash payment is equal to the appreciated value of the stock option as determined based on the difference between the option's exercise price and the Company's share price at the time of exercise. For the year ended December 31, 2008, 1.6 million stock options were exercised for cash in lieu of $9.5 million. Of this amount, $2.7 million had been recorded by the Company as a liability at December 31, 2007 and the remaining $6.7 million was recorded as an expense in 2008. Due to the reduction of the Company's share price, between December 31, 2007 and December 31, 2008, the balance of the December 31, 2007 stock based compensation expense liability of $4.6 million reversed and was recognized as a recovery of stock based compensation. When combined with the $6.7 million of expense recorded on options exercised, this resulted in stock based compensation expense of $2.1 million recorded in the statement of loss, (2007: expense of $3,412,000) being recognized on stock options based on the change in value of the stock options. Future fluctuations in the stock based compensation expense or recoveries are dependent on the movement of the Company's share price and the number of options outstanding. Based on the December 31, 2008 closing share price of $1.37, had all of the outstanding stock options to acquire 9,782,445 common shares been vested, there would be no aggregate stock based compensation expense or corresponding liability recognized (December 31, 2007: $8,424,300). At December 31, 2008, there has been no amount recognized as stock based compensation payable (December 31, 2007: $7,520,000). Subsequent to year end, 936,000 options with a weighted average exercise price of $0.95 were issued to officers and current and new employees of the Company.

(e) Warrants

On March 21, 2005, warrants to purchase 5,000,000 common shares at $2.90 were issued to Iteration Energy Inc. shareholders. The warrants vested the first day after the common shares of the Company had traded at a weighted average price of not less than $4.50 per common share for any 45 consecutive calendar days within a 42-month period and expired on September 21, 2008. On May 7, 2005, all of the warrants vested. Warrant capital of $4.1 million, calculated using the Black–Scholes option pricing methodology, was ascribed to the warrants issued.

During the second quarter of 2008, 1,000,000 warrants were exercised for common shares of the Company, on the payment by the warrant holder of $2.90 per warrant exercised. The $2.9 million of cash received plus the associated $833,000 of warrant capital ascribed has been recorded as share capital.

At the Annual General Meeting of the Company held on May 22, 2008, shareholders approved an amendment to the warrants which allowed holders of the then remaining warrants to receive a cash payment in exchange for the surrender of the warrants. The cash payment is equal to the difference between the warrant exercise price and the Company's share price at the time of the exercise. As a result of that change, the Company calculated the cash in lieu amount on the 3,722,000 warrants then outstanding, based on the difference between the fair market value of the Company's common shares at that time of $7.70 and the exercise price of $2.90. This amount of $17.9 million was recorded as stock based compensation payable with an offsetting charge to the deficit. A future income tax benefit associated with the obligation of $4.7 million, based on the Company's future tax rate of 26.5% was also recorded and warrant capital previously recorded in the financial statements at the time of $3.1 million was reclassified as a credit to the deficit.

Later in the second quarter, 3,605,000 warrants were exercised for cash in lieu, which resulted in a cash payment of $20.9 million. Of this amount, $3.5 million was recorded as an expense, representing the difference between the market value of the Company's shares at the date of exercise and the obligation recorded related to the market value of shares on May 22, 2008, as outlined above. The balance has been recorded as a reduction of stock based compensation payable.

During the third quarter, the remaining 116,667 warrants were exercised for cash in lieu, using an exercise price of $5.05 per warrant. As this amount was less than the value of the common shares at the time the conversion rights for the warrants changed of $7.70, the difference of $310,000 has been applied to reduce the initial charge to retained earnings.

(f) Per Share Amounts

	Year ended December 31,	
	2008	2007
Weighted average basic and diluted common shares outstanding	**147,743,495**	63,678,453

10. INCOME TAXES

The provision for future income taxes recorded in the financial statements differs from the amount that would be obtained by applying the statutory income tax rate to the loss before tax as follows:

	Year ended December 31,	
($000's)	**2008**	2007
Loss before tax	**$(198,046)**	$(14,200)
Statutory Canadian corporate tax rate	**29.70%**	32.12%
Anticipated tax recovery	**$(58,820)**	$(4,561)
Non-deductible charge relating to impairment of goodwill	**71,015**	-
Non-cash charge relating to warrants	**1,053**	-
Rate adjustment	**(1,340)**	(286)
Other	**4,951**	(108)
Future income tax expense (recovery)	**$16,859**	($4,955)

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

($000's)	**December 31, 2008**	December 31, 2007
Income tax rate (%)	**26.70**	29.50
Property, plant and equipment, having different income tax and accounting basis	**$72,392**	$10,228
Deferred partnership income	**46,449**	13,082
Scientific research pools	**-**	(5,301)
Non-capital loss carry forwards	**(13,136)**	(730)
Share issue costs	**(4,162)**	(1,568)
Accrued stock based compensation	**-**	(2,218)
Asset retirement obligation	**(11,567)**	(5,575)
Unamortized leasehold inducements	**(52)**	(59)
Other	**2,615**	(349)
Future income tax liability	**$92,539**	$7,510

The current tax expense of $929,000 for the year ended December 31, 2008 (December 31, 2007: $197,000) relates to a provincial part 1 tax assessment.

11. OPERATING LEASES

The Company has entered into various operating leases with respect to its premises. The leases have various expiration dates between September 30, 2012 and June 30, 2014 and require the following future minimum lease payments, by calendar year;

	Gross Commitment ($000's)	Sublet Recovery ($000's)	Net Commitment ($000's)
2009	$3,005	($1,268)	$1,737
2010	$3,537	($1,268)	$2,269
2011	$3,537	($1,268)	$2,269
2012	$3,220	($951)	$2,269
2013	$2,269	-	$2,269
2014	$1,135	-	$1,135

The office space previously occupied by Cyries has been sublet on a full recovery flow-through basis commencing June 1, 2008 through until September 30, 2012. As a result of the sublet, the Company recovers lease payments of approximately $1,268,000 per annum.

The existing lease on the Company's office space was to expire on June 30, 2009. During 2008, the Company renewed the lease on the existing premises, plus additional expansion space, for a further five year term commencing July 1, 2009 on the existing premises and October 1, 2009 on the expansion premises.

12. FINANCIAL INSTRUMENTS

The Company is exposed to a number of different financial risks arising from normal course business exposures, as well as the Company's use of financial instruments. These risk factors include market risks relating to commodity prices and interest rate risk, as well as liquidity risk and credit risk.

a) Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include commodity price risk and interest rate risk.

- Commodity Price Risk

The Company's financial performance is closely linked to oil and natural gas prices. A change of $1.00 Cdn/GJ in natural gas prices at the wellhead would have the effect of changing net earnings for the year by approximately $20.0 million. A $5.00/bbl change in WTI for oil would have the effect of changing net earnings for the year by approximately $5.2 million.

From time to time, the Company employs the use of various financial instruments to manage these price exposures. During the year the Company had the following forward option for the future physical delivery of crude oil:

Term	Volume (bbl/d)	Contract Price (US $ /bbl)	Price Basis
Dec 1, 2007 – Nov 30, 2008	200	$75.00 floor, $90.20 ceiling	WTI

The Company considered the contract to be a future sales contract in the normal course of business at prices within a predetermined range with our oil marketer, which was satisfied by the future delivery of crude oil. The loss realized during the year ended December 31, 2008 with respect to this contract was approximately $1,160,000.

- Interest Rate Risk

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows and the fair value of its financial instruments. The Company's primary debt facility has a floating interest rate that will fluctuate based on prevailing market conditions and the Company's ratio of funded debt to trailing cash flow. Cash flows are sensitive to changes in interest rates on this instrument. Given the amount of debt employed, the Company's strategy is to manage interest rate risk within the current economic environment framework. If interest rates on the floating instrument were to change by 1.0% for the year, it is estimated that net earnings for the year would change by approximately $2.5 million.

b) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company believes, subject to a significant change in its borrowing base which results in a reduction in its credit facility, that it has access to sufficient capital through internally generated cash flows and external equity sources, as well as undrawn committed borrowing facilities to meet current spending forecasts. All of the trade liabilities mature in 2009 and the Company's bank loan is due on demand.

Scheduled reviews of the credit facility focus on the borrowing base supporting lending limits and are influenced by the lenders willingness to lend in general, commodity price forecasts used to determine the lending base, lenders interest in particular business sectors, such as energy and the relative strength of the borrower. Given these constraints, there is no assurance that Iteration will be able to sustain its current borrowing base and may be required to reduce its outstanding loans. Should there be a requirement of the Company to reduce its outstanding loans, there are a number of options available including, but not limited to:

a) Issuance of additional equity;

b) Negotiation of incremental borrowings with subordinated lenders;

c) Divestiture of assets: and

d) Dedication of funds from operations.

The quantum of the Company's credit facility is currently being reviewed by the credit syndicate.

c) Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value of the future cash flows will fluctuate because of changes in foreign exchange rates. The benchmark pricing for most natural gas and crude oil is based on US Dollars. Changes in the exchange rate of the Canadian dollar relative to the US dollar will indirectly impact the Canadian dollar commodity price realized by the Company and, as a result, cash flow. If foreign exchange rates were to change by 1% over the course of the year, it is estimated that net earnings for the year would change by approximately $3.0 million.

d) Counterparty Credit Risk

Counterparty credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss. The Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal credit risks. A small portion of the Company's production is currently sold through a joint venture partner to purchasers under normal industry sale and payment terms; the balance is sold to twenty four marketers also under normal industry terms. Of these twenty four marketers, sales to four account for approximately 80% of the Company's production revenue. The Company generally grants unsecured credit but routinely assesses the financial strength of its customers and joint venture partners.

SemCAMS ULC and SemCanada Crude Company CCAA Filing

During the year, SemCanada Crude Company ("SemCanada") and SemCAMS ULC (SemCAMS) filed for protection under the Company Creditors Arrangement Act ("CCAA") in association with the filing for Chapter 11 protection in the State of Delaware by their US parent SemGroup, LP ("SemGroup"). The Company has marketing arrangements with SemCAMS for a portion of its natural gas production and with SemCanada for a portion of its crude oil production. As a result of the filing for CCAA protection, producers were advised that they would not be receiving payment for production supplied for the period from June 1 to July 21, 2008 within the previously agreed payment terms. The Company estimates that the value of this production is approximately $17 million. Given the uncertainty, as at December 31, 2008, with respect to the ultimate timing and collection, the Company has established a provision for bad debts of $13.9 million with respect to this receivable.

As at December 31, 2008 the Company has an allowance for doubtful accounts of $15.4 million, (including a provision of $13.9 million relating to the filing for Company Creditors Arrangement Act protection by SemCanada and SemCAMS), on trade accounts receivable that in the estimation of the Company may be impaired.

As at December 31, 2008, the aging analysis of trade receivables, net of the allowance for doubtful accounts, is as follows:

	($000's)
Current	29,080
30 – 60 days	2,671
60 – 90 days	3,479
Greater than 90 days	24,156
Total	59,386
Less allowance for doubtful accounts	(15,390)
Total	43,996

13. CONTINGENCIES

The Company is party to various lawsuits as at December 31, 2008. It is management's opinion that, based on the best currently available information, the amount of any potential exposure and the outcome of these lawsuits is not determinable at this time. As a result, no provisions for these items have been recorded in these financial statements.

Pursuant to a purchase and sale agreement, the Company has indemnified the purchaser of a former subsidiary company for up to $1,000,000 of income tax and legal expenses incurred with respect to specifically identified income tax returns. The Company accrued this obligation in the first quarter of 2008 and correspondingly increased the purchase price of related property, plant and equipment acquired as part of a series of transactions which occurred in conjunction with the disposition of the former subsidiary.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers.

14. SUPPLEMENTAL DISCLOSURE ON CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in non-cash working capital were comprised of the following:

	Year ended December 31,	
($000's)	**2008**	2007
Accounts receivable	**$10,651**	$(3,660)
Prepaids and other current assets	**(2,768)**	(1,434)
Accounts payable and accrued liabilities	**(43,298)**	9,425
Net change	**$(35,415)**	$4,331

	Year ended December 31,	
($000's)	**2008**	2007
Net change by activity:		
Operating	**$(25,700)**	$(4,330)
Investing	**(9,715)**	8,661
Net change	**$(35,415)**	$4,331

Additional information:

	Year ended December 31,	
($000's)	**2008**	2007
Cash interest paid	**$9,327**	$2,162
Cash taxes paid	**929**	197

Included in cash interest paid during the year ended December 31, 2008 are initial commitment fees of $448,000 related to the syndicated facility.

15. CAPITAL MANAGEMENT

The Company's principal business of the exploration, exploitation and development of oil and gas requires ongoing access to capital in order to allow the Company to successfully implement its growth strategy; and to provide adequate returns for shareholders and benefits for other stakeholders.

The Company defines capital as share capital and bank indebtedness, net of cash. The consolidated capital structure of the Company is as follows:

	As at December 31, 2008		As At December 31, 2007	
	($000's)	%	($000's)	%
Cash	$(6,832)	(0.6)	$(1,230)	(0.4)
Bank indebtedness	266,800	25.0	50,370	17.2
Share capital	805,301	75.6	238,586	81.8
Warrants outstanding	-	-	3,934	1.4
Total	$1,065,629	100.0	$291,660	100.0

As at December 31, 2008, the Company had a borrowing base bank credit facility that contained covenants which limit the amount of debt that can be incurred by the Company. Throughout the periods presented, the Company has met those covenants.

The Company actively manages its capital structure with the objective of maintaining sufficient flexibility to allow it to execute on its capital investment program, including investing in oil and gas acquisitions, exploration and development, which may or may not be successful. For this objective to be achieved, Iteration continually strives to balance the proportion of debt to equity in its capital structure to take into account the level of risk being incurred through capital expenditures.

In order to maintain or adjust the capital structure, the Company considers various factors including, but not limited to:

a) projected debt to projected funds from operations ratio while attempting to finance an acceptable investment program, including incremental investment and acquisition opportunities;

b) the current level of bank credit available from the banking syndicate;

c) the level of bank credit that may be available from the banking syndicate as a result of anticipated changes in reserves;

d) the availability of other sources of debt with different characteristics from the existing bank debt;

e) the sale of assets;

f) limiting the size of the investment or capital program; and

g) issuing new common equity if available on favorable terms.

Should there be a requirement of the Company to reduce its outstanding loans under its credit facility, there are a number of options available including, but not limited to:

a) Issuance of additional equity;

b) Negotiation of incremental borrowings with subordinated lenders;

c) Divestiture of assets and;

d) Dedication of funds from operations.

16. FINANCIAL INSTRUMENTS

Section 3855 of the CICA Handbook requires the initial measurement of all financial instruments at fair value with classification into one of five categories; loans and receivables; assets held to maturity; assets available for sale; other financial liabilities; and held for trading.

The Company has elected to classify its financial instruments as follows:

($000's)	**December 31, 2008** Carrying Value	**December 31, 2008** Estimated Fair Value	December 31, 2007 Carrying Value	December 31, 2007 Estimated Fair Value
Loans and receivables				
Accounts receivable	**$43,996**	**$43,996**	$15,942	$15,942
Other financial liabilities				
Bank indebtedness	**266,800**	**266,800**	50,370	50,370
Accounts payable and accrued liabilities	**71,004**	**71,004**	30,454	30,454
Stock based compensation payable	**-**	**-**	7,520	7,520

The carrying value of financial instruments included in current assets and current liabilities approximate their fair value, reflecting the short term maturity, normal trade credit terms, and/or the nature of these instruments.