



**DEJOUR ENTERPRISES LTD.**  
**ENERGY. INDEPENDENCE.**

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## **CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2008**

**INDEPENDENT AUDITORS' REPORT**

**CONSOLIDATED BALANCE SHEETS**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Dejour Enterprises Ltd.

We have completed integrated audits of the 2008 and 2007 consolidated financial statements of Dejour Enterprises Ltd. and of its internal control over financial reporting as at December 31, 2008 and 2007. Our opinions, based on our audits, are presented below.

### Consolidated financial statements

We have audited the accompanying consolidated balance sheets of Dejour Enterprises Ltd. as at December 31, 2008 and 2007, and the related consolidated statements of operations and deficit, comprehensive loss and accumulated other comprehensive income (loss) 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 of the Company's financial statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. A financial statement audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above 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.

### Internal control over financial reporting

We have also audited Dejour Enterprises Ltd.'s internal control over financial reporting as at December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, which is set out in Management's Report on Internal Control Over Financial Reporting included in Management's Discussion and Analysis. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2008 based on criteria established in Internal Control — Integrated Framework issued by the COSO.

“DMCL”

**DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED ACCOUNTANTS**

Vancouver, Canada  
March 20, 2009

#### **COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA-UNITED STATES REPORTING DIFFERENCES**

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company’s ability to continue as a going concern, such as those described in Note 1 to the financial statements. Our report to the shareholders dated March 20, 2009 is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors’ report when these are adequately disclosed in the financial statements.

“DMCL”

**DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED ACCOUNTANTS**

Vancouver, Canada  
March 20, 2009

**DEJOUR ENTERPRISES LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in Canadian Dollars)

	December 31, 2008	December 31, 2007
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 406,775	\$ 13,511,655
Accounts receivable	782,856	-
Advances for oil and gas projects	216,430	1,006,917
Marketable securities (Note 4)	-	36,250
Prepays and other receivables	269,730	488,900
Unrealized financial instrument gain	107,768	-
	<b>1,783,559</b>	<b>15,043,722</b>
<b>Equipment, net</b> (Note 5)	<b>116,584</b>	<b>88,287</b>
<b>Investment in Titan</b> (Note 6)	<b>2,721,875</b>	<b>12,600,000</b>
<b>Uranium properties</b> (Note 7 (a))	<b>696,991</b>	<b>696,991</b>
<b>Oil and gas properties</b> (Note 7 (b))	<b>56,986,727</b>	<b>34,714,499</b>
	<b>\$ 62,305,736</b>	<b>\$ 63,143,499</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Bank line of credit (Note 8)	\$ 5,550,000	\$ -
Accounts payable and accrued liabilities	3,741,770	2,664,135
Convertible debentures (Note 9)	-	1,043,605
Loan from related party (Note 10 (b))	600,000	-
Loan from joint-venture partner (Note 10 (a))	4,604,040	-
	<b>14,495,810</b>	<b>3,707,740</b>
<b>Loan from related party</b> (Note 10 (b))	<b>1,950,000</b>	<b>-</b>
<b>Asset retirement obligations</b> (Note 11)	<b>363,109</b>	<b>-</b>
<b>Future income tax liabilities</b> (Note 17)	<b>1,133,140</b>	<b>-</b>
	<b>17,942,059</b>	<b>3,707,740</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 12)	64,939,177	61,393,964
Contributed surplus (Note 14)	5,895,560	3,735,270
Deficit	(26,578,828)	(5,688,075)
Accumulated other comprehensive income (loss)	107,768	(5,400)
	<b>44,363,677</b>	<b>59,435,759</b>
	<b>\$ 62,305,736</b>	<b>\$ 63,143,499</b>

**Contingency** (Note 8)

**Commitments** (Notes 8 and 10)

**Subsequent Events** (Note 21)

Approved on behalf of the Board:

*“Robert Hodgkinson”*

Robert Hodgkinson – Director

*“Craig Sturrock”*

Craig Sturrock – Director

**DEJOUR ENTERPRISES LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Expressed in Canadian Dollars)

	Year Ended December 31, 2008	Year Ended December 31, 2007
<b>OIL AND NATURAL GAS REVENUE</b>	<b>\$ 5,765,555</b>	<b>\$ -</b>
<b>EXPENSES</b>		
Amortization, depletion and accretion	3,690,939	33,959
General and administrative	4,214,783	4,340,021
Interest expense and finance fee	481,252	293,536
Operating and transportation	3,121,955	-
Stock based compensation (Note 13)	2,719,957	2,461,400
	<b>14,228,886</b>	<b>7,128,916</b>
<b>LOSS BEFORE THE FOLLOWING AND INCOME TAXES</b>	<b>(8,463,331)</b>	<b>(7,128,916)</b>
Interest and other income	236,838	806,147
(Loss) gain on disposition of investment	(8,846)	44,023
Equity income (loss) from Titan (Note 6)	3,636,710	(2,351,810)
Foreign exchange loss	(675,599)	(141,670)
Impairment of investment in Titan (Note 6)	(12,990,343)	(21,581,177)
Impairment of oil and gas properties (Note 7(b))	(2,029,942)	(678,044)
<b>LOSS BEFORE INCOME TAXES</b>	<b>(20,294,513)</b>	<b>(31,031,447)</b>
<b>FUTURE INCOME TAXES (EXPENSE) RECOVERY</b> (Note 17)	<b>(596,240)</b>	<b>4,220,774</b>
<b>NET LOSS FOR THE YEAR</b>	<b>(20,890,753)</b>	<b>(26,810,673)</b>
<b>(DEFICIT) RETAINED EARNINGS, BEGINNING OF THE YEAR</b>	<b>(5,688,075)</b>	<b>21,122,598</b>
<b>DEFICIT, END OF THE YEAR</b>	<b>\$ (26,578,828)</b>	<b>\$ (5,688,075)</b>
<b>NET LOSS PER SHARE - BASIC AND DILUTED</b>	<b>\$ (0.29)</b>	<b>\$ (0.40)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED</b>	<b>72,210,852</b>	<b>66,588,825</b>

**DEJOUR ENTERPRISES LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS AND ACCUMULATED OTHER**  
**COMPREHENSIVE INCOME (LOSS)**  
(Expressed in Canadian Dollars)

	Year Ended December 31, 2008	Year Ended December 31, 2007
<b>NET LOSS FOR THE YEAR</b>	<b>\$ (20,890,753)</b>	<b>\$ (26,810,673)</b>
Unrealized loss on available for sale marketable securities	-	(5,400)
Unrealized financial instrument gain	<b>107,768</b>	-
<b>COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>\$ (20,782,985)</b>	<b>\$ (26,816,073)</b>
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS, BEGINNING OF THE YEAR</b>	<b>\$ (5,400)</b>	<b>\$ -</b>
Adjustment for new accounting standards adoption	-	98,168
Unrealized gains (losses) arising during the year	<b>107,768</b>	(18,750)
Realized losses (gains) during the year	<b>5,400</b>	(84,818)
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF THE YEAR</b>	<b>\$ 107,768</b>	<b>\$ (5,400)</b>

**DEJOUR ENTERPRISES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)

	Year Ended December 31, 2008	Year Ended December 31, 2007
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (20,890,753)	\$ (26,810,673)
Adjustment for items not affecting cash:		
Amortization, depletion and accretion	3,690,939	33,959
Equity (income) loss from Titan	(3,636,710)	2,351,810
Non-cash stock based compensation	2,719,957	2,461,400
Capitalized interests on convertible debentures	143,758	54,889
Unrealized foreign exchange loss	749,575	-
Impairment of investment in Titan	12,990,343	21,581,177
Impairment of oil and gas properties	2,029,942	678,044
Future income taxes expense (recovery)	596,240	(4,220,774)
Loss (gain) on disposal of investment	8,846	(44,023)
Changes in non-cash working capital balances (Note 15)	1,304,436	(1,274,271)
	<b>(293,427)</b>	<b>(5,188,462)</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Purchase of equipment	(67,049)	(15,293)
Proceeds from sales of marketable securities	27,403	308,644
Disposal of investment in Titan (Note 6)	529,894	5,966
Resource properties expenditures	(27,591,251)	(8,137,694)
	<b>(27,101,003)</b>	<b>(7,838,377)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Bank line of credit	5,550,000	-
Loans from joint-venture partner and related party	6,404,465	(5,827,000)
Shares issued for cash	2,335,085	14,705,331
	<b>14,289,550</b>	<b>8,878,331</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(13,104,880)</b>	<b>(4,148,508)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>	<b>13,511,655</b>	<b>17,660,163</b>
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	<b>\$ 406,775</b>	<b>\$ 13,511,655</b>

Supplemental Cash Flow Information (Note 15)

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2008

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**NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

Dejour Enterprises Ltd. (the “Company”) is a public company trading on the New York Stock Exchange Alternext (“NYSE-Alt”) and the Toronto Stock Exchange (“TSX”), under the symbol “DEJ.” The Company ceased to trade on the TSX Venture Exchange (“TSX-V”) and graduated to the TSX effective November 20, 2008. The Company is in the business of exploring and developing energy projects with a focus on oil and gas in North America.

These consolidated financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) in Canada. All dollar amounts are stated in Canadian dollars, the Company’s reporting currency, unless otherwise indicated. Certain of the comparative figures have been reclassified to conform to the current year’s presentation, if necessary.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Dejour Energy (USA) Corp., incorporated in Nevada, and Dejour Energy (Alberta) Ltd. (“DEAL”) and Wild Horse Energy Ltd. (“Wild Horse”), incorporated in Alberta. DEAL was incorporated in April 2006 with a joint venture partner who owned 10% of DEAL. In June 2007, the Company purchased that 10% ownership of DEAL through the acquisition of outstanding shares of Wild Horse which holds the 10% interest in DEAL, and DEAL became the Company’s wholly-owned subsidiary. All intercompany transactions are eliminated upon consolidation.

In accordance with the terms of the revolving operating loan facility (see Note 8), DEAL is required to maintain an adjusted working capital ratio of not less than 1.10:1. The adjusted working capital ratio is defined as the ratio of (i) current assets plus any undrawn availability under the facility, to (ii) current liabilities less any amount drawn under the facility. As at December 31, 2008, DEAL’s adjusted working capital ratio was approximately 0.60:1 and therefore was not in compliance with the covenant related to the loan facility.

The consolidated financial statements for the year ended December 31, 2008 have been prepared on a going concern basis, which presumes the Company will continue in operation for the foreseeable future and will realize its assets and discharge its liabilities in the normal course of operation. During the year, the Company has incurred a net loss of \$20,890,753 (2007 – \$26,810,673). The Company’s continued existence is dependent upon management’s ability to raise required funding through future equity issuances, debt, asset sales or a combination thereof. Management is also aware that significant material uncertainties exist, related to current economic conditions that could cast significant doubt upon the entity’s ability to continue to finance its exploration activities. As a result, management plans on reducing spending in order to preserve cash and maintain liquidity until overall market conditions improve. Management is not able to assess the likelihood or timing of improvements in the equity markets for raising capital for future acquisitions or expenditures. This uncertainty represents a liquidity risk and may impact the Company’s ability to continue as a going concern in the future.

**NOTE 2 – RECENTLY ADOPTED ACCOUNTING POLICIES AND FUTURE ACCOUNTING PRONOUNCEMENTS**

**(a) Recently Adopted Accounting Policies**

- (i) Effective January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (“CICA”) under CICA Handbook Section 1400 General Standards for Financial Presentation, which has been amended to include requirements to assess and disclose the Company’s ability to continue as a going concern. The adoption of this new standard had no effect on the amounts disclosed in the financial statements and affected only disclosure.
- (ii) Effective January 1, 2008, the Company adopted the new recommendations of the CICA under CICA Handbook Section 1535 Capital Disclosures. 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 adoption of this new standard had no effect on the amounts disclosed in the financial statements and affected only disclosure.

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2008

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**NOTE 2 – RECENTLY ADOPTED ACCOUNTING POLICIES AND FUTURE ACCOUNTING PRONOUNCEMENTS (continued)**

**(a) Recently Adopted Accounting Policies (continued)**

- (iii) Effective January 1, 2008, the Company adopted the new recommendations of the CICA under CICA Handbook Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation to replace Section 3861. Section 3862 establishes standards for disclosures about financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. Transitional provisions are complex and vary based on the type of financial instruments under the consideration. The adoption of this new standard had no effect on the amounts disclosed in the financial statements and affected only disclosure.
- (iv) Effective January 1, 2008, the Company adopted the new recommendations of the CICA under CICA Handbook Section 1506 Accounting Changes. This Section prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This Section is intended to enhance the relevance and reliability of an entity's financial statements and the comparability of those financial statements over time and with the financial statements of other entities. The adoption of this new standard had no effect on the amounts disclosed in the financial statements.
- (v) Effective January 1, 2008, the Company adopted the new recommendations of the CICA under CICA Handbook Section 3031 Inventories. This Section provides expanded guidance on the measurement and disclosure requirements for inventories. Specifically, the new standard requires that inventories be measured at the lower of cost and net realizable value, and provides more guidance on the determination of cost and its subsequent recognition as expense, including any write-down to net realizable value. The adoption of this new standard had no effect on the amounts disclosed in the financial statements.

**(b) Future Accounting Pronouncements**

The following accounting pronouncements are applicable to future reporting periods. The Company is currently evaluating the effects of adopting these standards:

- (i) In January 2006, the CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards (“IFRS”) by the end of 2011. The impact of the transition to IFRS on the Company’s financial statements has not yet been determined.
- (ii) The AcSB issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its 2009 fiscal year. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

**NOTE 3 – SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES**

**(a) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and highly liquid investments having maturity dates of three months or less from the date of acquisition that are readily convertible to cash.

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2008

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**NOTE 3 – SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Marketable Securities**

Marketable securities are designated as available-for-sale and are measured and carried at fair market value. Market value is based on the closing price at the balance sheet date or the closing price on the last day the security traded if there were no trades at the balance sheet date. Changes in fair market value are recognized in comprehensive income.

**(c) Resource Properties**

Mineral properties

The Company records its interests in mineral properties at the lower of cost or estimated recoverable value. Where specific exploration programs are planned and budgeted by management, the cost of mineral properties and related exploration expenditures are capitalized until the properties are placed into commercial production, sold, abandoned or determined by management to be impaired in value. These costs will be amortized over the estimated useful lives of the properties following the commencement of production or written off if the properties are sold or abandoned.

The costs include the cash or other consideration and the assigned value of shares issued, if any, on the acquisition of mineral properties. Costs related to properties acquired under option agreements or joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. For properties held jointly with other parties the Company only records its proportionate share of acquisition and exploration costs. The proceeds from options granted are deducted from the cost of the related property and any excess is deducted from other remaining capitalized property costs. The Company does not accrue estimated future costs of maintaining its mineral properties in good standing. To date the Company has not recorded any asset retirement obligations for its mineral properties as no amounts are presently determinable.

Capitalized costs as reported on the balance sheet represent costs incurred to date and may not reflect recoverable value. Recovery of carrying value is dependent upon future commercial success or proceeds from disposition of the mineral interests.

Management evaluates each mineral interest on a reporting period basis or as events and changes in circumstances warrant, and makes a determination based on exploration activity and results, estimated future cash flows and availability of funding as to whether costs are capitalized or charged to operations. Mineral property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

General exploration costs not related to specific properties and general administrative expenses are charged to operations in the year in which they are incurred.

The Company does not have any producing mineral properties and all of its efforts to date have been exploratory in nature.

Oil and gas properties

The Company follows the full cost method of accounting for its oil and gas operations whereby all costs related to the acquisition of, exploration for and development of petroleum and natural gas interests are capitalized. Such costs include land and lease acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs, interest costs, costs of drilling and equipping productive and non-productive wells, and direct exploration consulting fees. Proceeds from the disposal of oil and gas interests are recorded as a reduction of the related expenditures without recognition of a gain or loss unless the disposal would result in a change of 20 percent or more in the depletion rate.

Depletion and depreciation of the capitalized costs will be computed using the unit-of-production method based on the estimated proven reserves of oil and gas determined by independent consultants. Costs of significant unproved properties, net of impairment, and estimated salvage values are excluded from the depletion and depreciation calculation.

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2008

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**NOTE 3 – SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Resource Properties (continued)**

Oil and gas properties (continued)

Estimated future removal and site restoration costs are provided over the life of proven reserves on a unit-of-production basis. Costs, which include the cost of production, equipment removal and environmental clean-up, are estimated each period by management based on current regulations, costs, technologies and industry standards. The charge is included in the provision for depletion and depreciation and the actual restoration expenditures are charged to the accumulated provision accounts as incurred.

The Company evaluates its oil and gas assets on an annual basis using a ceiling test to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves less unproved properties exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves less unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using a risk-free rate.

**(c) Equipment**

Equipment is recorded at cost with amortization being provided using the declining balance basis at the following rates:

Office furniture and equipment	20%
Computer equipment	45%
Software	100%

The carrying values of all categories of equipment are reviewed for impairment whenever events or changes in circumstances indicate the recoverable value may be less than the carrying amount. Recoverable value is based on estimates of undiscounted and discounted future net cash flows expected to be recovered from specific assets or groups through use or future disposition. One-half of the annual rates are used in the year of the acquisition.

**(d) Investments**

The Company accounts for its investments in other companies over which it has significant influence using the equity basis of accounting whereby the investments are initially recorded at cost and subsequently adjusted to recognize the Company's share of earnings or losses of the investee company and reduced by dividends received. Carrying values of equity investments are reduced to estimated market values if there is other than a temporary decline in the value of the investment.

**(e) Earnings (Loss) per Share**

The Company uses the treasury stock method for the computation and disclosure of earnings (loss) per share. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments which assume that proceeds received from in-the-money warrants and stock options are used to repurchase common shares at the prevailing market rate.

Basic earnings (loss) per share figures have been calculated using the weighted monthly average number of shares outstanding during the respective periods. Diluted loss per share figure is equal to that of basic loss per share since the effects of options and warrants have been excluded as they are anti-dilutive.

**(f) Joint Operations**

Exploration, development, and production activities may be conducted jointly with others and accordingly, the Company only reflects its proportionate interest in such activities.

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Year Ended December 31, 2008

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**NOTE 3 – SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Foreign Currency Translation**

The financial statements are presented in Canadian dollars. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates which prevailed at the balance sheet date. Non-monetary items are translated at historical exchange rates, except for items carried at market value, which are translated at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at average rates of exchange during the year. Exchange gains or losses arising on foreign currency translation are included in the determination of operating results for the year.

The Company's US subsidiary is an integrated foreign operation and is translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at the average exchange rate for the period. Translation gains and losses are reflected in income (loss) for the year.

**(h) Use of Estimates**

The preparation of financial statements in conformity with 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 period. Actual results could differ from those estimates. The significant areas requiring management's estimates relate to the recoverability of the carrying value of the Company's resource properties, the amounts recorded for depletion and depreciation of oil and natural gas property, plant, and equipment, the provision for asset retirement obligations, future income tax effects and the determination of fair value of stock-based compensation. The cost recovery ceiling test is based on estimates of proved reserves, production rates, oil and natural gas prices, futures cost, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

**(i) Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities.

The Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, bank line of credit, accounts payable, loan from joint-venture partner, and loan from related party. Except for marketable securities, management has determined that the fair value of these financial instruments approximates their carrying values due to their immediate or short-term maturity.

On adopting these standards, the Company designated its cash and cash equivalents and bank line of credit as held-for-trading, which are measured at fair value. Marketable securities are designated as available for sale which are measured at fair value. Receivables are classified under loans and receivables, which are measured at amortized cost. Accounts payable, loan from joint-venture partner, and loan from related party are classified as other financial liabilities, which are measured at amortized cost.

The Company enters into derivative financial instruments to manage its exposure to volatility in commodity prices. These instruments are not used for trading or other speculative purposes. For derivative instruments that do qualify as effective accounting hedges, policies and procedures are in place to ensure that documentary and approvals requirements are met. The documentation specifically ties the derivative financial instruments to their use, and in the case of commodities, to the mitigation of market price risk associated with cash flows expected to be generated. The Company also identifies all relationships between hedging instruments and hedged items, as well as its risk management objective and the strategy for undertaking hedge transactions. This would include linking the particular derivative to specific assets and liabilities or to specific firm commitments or forecasted transactions. Where specific hedges are executed, the Company assesses, both at

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 – SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(i) Financial Instruments (continued)**

the inception of the hedge and on an ongoing basis, whether the derivative used in the particular hedging transaction is effective in offsetting changes in fair value or cash flows of the hedged item.

Cash flow hedges: The effective portion of changes in the fair value of financial instruments designated as a cash flow hedge is recognized in other comprehensive income, net of tax, with any ineffective portion being recognized immediately in net income. Gains and losses are recovered from other comprehensive income and recognized in net income in the same period as the hedged item.

Fair value hedges: Both the financial instrument designated as the hedging item, and the underlying hedged asset or liability are measured at fair value. Changes in the fair value of both the hedging and hedged item are reflected in net income immediately.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item. Derivative instruments that qualify as hedges, or have been designated as hedges, are recorded at fair value on inception. At the end of each reporting period, the change in the fair value of the hedging derivative is recognized in other comprehensive income. When hedge accounting is discontinued or when the hedged item is sold or early terminated, the amounts previously recognized in accumulated other comprehensive income are reclassified to net income.

Net smelter royalties and related rights to earn or relinquish interests in mineral properties constitute derivative instruments. No value or discounts have been assigned to such instruments as there is no reliable basis to determine fair value until properties are in development or production and reserves have been determined.

**(j) Future Income Taxes**

Future income taxes are recognized for the future income tax consequences attributable to differences between financial statement carrying values and their corresponding tax values (temporary differences). Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in years in which temporary differences are expected to be recovered or settled. The effect on futures income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that, in the opinion of management, is more likely than not to be realized.

**(k) Revenue Recognition**

Revenues from the sale of oil and natural gas are recorded when title passes to an external party and collectability is reasonably assured.

**(l) Stock-Based Compensation**

The Company follows the recommendations of the CICA Handbook in accounting for stock-based compensation. The Company adopted the fair value method for all stock-based compensation. Under the fair value based method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period for directors and employees and over the service life for consultants. The fair value of options and other stock based awards issued or altered in the period, are determined using the Black-Scholes option pricing model.

The Company has granted stock options to directors, consultants and employees as described in Note 13.

**(m) Asset Retirement Obligations**

The Company reviews and recognizes legal obligations associated with the retirement of tangible long-lived assets, including rights to explore or exploit natural resources. When such obligations are identified and measurable, the estimated

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 – SUMMARY OF OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(m) Asset Retirement Obligations (continued)**

fair values of the obligations are recognized on a systematic basis over the remaining period until the obligations are expected to be settled. On recognition of the liability, there is a corresponding increase in the carrying amount of the related assets known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the assets. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. Actual costs incurred upon settlement of the obligations are charged against the liability.

**(n) Flow-Through Shares**

The Company provides certain share subscribers with a flow-through component for tax incentives available on qualifying Canadian exploration expenditures. The Company renounces the qualifying expenditures upon the issuance of the respective flow-through common shares and accordingly is not entitled to the related taxable income deductions from such expenditures.

The Company has adopted the recommendation by the Emerging Issues Committee (“EIC”) of the CICA relating to the recording of flow-through shares. EIC 146 stipulates that future income tax liabilities resulting from the renunciation of qualified resource expenditures by the Company from the issuance of flow-through shares are recorded as a reduction of share capital. Any corresponding realization of future income tax benefits resulting in the utilization of prior year losses available to the Company not previously recorded, whereby the Company did not previously meet the criteria for recognition, are reflected as part of the Company’s operating results in the period the expenses are renounced to the share subscribers and applicable tax filing have been made with the Canada Revenue Agency.

**(o) Impairment of Long-lived Assets**

The CICA has issued CICA Handbook, Section 3063, Impairment of Long-lived Assets which provides guidance on recognizing, measuring and disclosing the impairment of long-lived assets. The guidance replaces the write-down provisions in Section 3061 of the CICA Handbook, Property, Plant and Equipment.

The determination of when to recognize an impairment loss for a long-lived asset to be held and used is made when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposition. When impairment is indicated other than a temporary decline, the amount of the impairment loss is determined as the excess of the carrying value of the amount over its fair value based on estimated discounted cash flows from use or disposition.

**(p) Comprehensive Income**

The Company follows CICA Handbook, Section 1530, Comprehensive Income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Section 1530 establishes standards for reporting and presenting certain gains and losses not normally included in net income or loss, such as unrealized gains and losses related to available for sale securities, and gains and losses resulting from the translation of self-sustaining foreign operations, in a statement of comprehensive income.

**NOTE 4 – MARKETABLE SECURITIES**

As at December 31, 2008, the Company had sold all of its marketable securities. As at December 31, 2007, the Company had 25,000 common shares of Brownstone Ventures Inc. (“Brownstone”), with a cost of \$41,650 and a fair value of \$36,250. During the year ended December 31, 2008, the Company received proceeds of \$27,403 from the sale of 25,000 Brownstone shares resulting in a loss of \$14,247.

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**NOTE 5 – EQUIPMENT**

	December 31, 2008			December 31, 2007		
	Accumulated			Accumulated		
	Cost	Amortization	Net	Cost	Amortization	Net
Furniture, fixtures and equipment	\$ 134,373	\$ 55,711	\$ 78,662	\$ 103,682	\$ 39,881	\$ 63,801
Computer equipment	83,837	51,642	32,195	58,932	35,488	23,444
Software	15,570	9,843	5,727	4,116	3,074	1,042
	<u>\$ 233,780</u>	<u>\$ 117,196</u>	<u>\$ 116,584</u>	<u>\$ 166,730</u>	<u>\$ 78,443</u>	<u>\$ 88,287</u>

**NOTE 6 – INVESTMENT IN TITAN URANIUM INC.**

In December 2006, the Company sold a 90% interest in its uranium properties, consisting of 68 claims and 4 permits totaling 966,969 acres located in the Athabasca Basin, Saskatchewan, Canada, and all related exploration data to Titan Uranium Inc. (“Titan”), a public company traded on the TSX-V, under the following terms:

- (a) Titan issued the Company 17,500,000 fully paid and assessable common shares in the capital of Titan (representing a 36.47% of Titan’s issued and outstanding shares at closing). The Company is restricted from transferring beneficial ownership of Titan shares until the first anniversary of the date of closing, at which time up to 20% of the original number may be traded in any twelve month period, and any trades in excess of this annual limit will be subject to prior approval of the Board of Directors of Titan;
- (b) Titan issued the Company 3,000,000 transferable common share purchase warrants, entitling the holder to acquire up to 3,000,000 common shares in the capital of Titan at an exercise price of \$2.00 per common share for a period of 24 months, subject to a forced exercise provision whereby Titan can call the automatic exercise of the warrants should Titan’s common shares trade on the TSX-V at a price of \$4.00 or more for 20 consecutive trading days. These warrants expired unexercised on December 15, 2008;
- (c) The Company retained a 1% Net Smelter Return on all properties and a 10% working interest in each claim, carried by Titan to completed bankable feasibility study after which the Company may elect to participate as to its 10% interest or convert to an additional 1% Net Smelter Return.

The estimated fair market value of Titan’s shares and warrants at the date of acquisition were \$31,650,000 and \$4,800,000 respectively. The investment in Titan has been accounted for using the equity method of accounting and includes related legal fees and other costs of acquisition of \$107,983. During the year ended December 31, 2007, the Company recognized an impairment loss of \$21,581,177 and wrote down its investment in Titan to \$12,600,000, the fair value as at December 31, 2007.

During the year ended December 31, 2008, the Company recognized an impairment loss of \$12,990,343 and wrote down its investment in Titan to \$2,721,875, the fair value as at December 31, 2008.

The Company owned approximately 31.7% of Titan’s shares as at December 31, 2008. The Company’s share of income in Titan for the year ended December 31, 2008 was \$3,636,710 (2007 loss: \$2,351,810). During the year ended December 31, 2008, the Company received proceeds of \$529,894 from the sale of 750,000 Titan shares, resulting in a gain of \$5,401.

**NOTE 7 – RESOURCE PROPERTIES**

**(a) Uranium Properties**

In 2005 and 2006, the Company acquired interests in and staked uranium exploration properties in the Athabasca Basin region of Saskatchewan, Canada and commenced exploration on certain properties. In December 2006, the Company sold a 90% interest in these properties to Titan as disclosed in Note 6 and realized a gain on disposition of \$30,177,082. The

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 7 – RESOURCE PROPERTIES (continued)**

**(a) Uranium Properties (continued)**

carrying value of the remaining 10% carried interest and 1% net smelter return was \$696,991 as at December 31, 2008 and December 31, 2007.

**(b) Oil and Gas Properties**

United States (US) Oil and Gas Projects

Colorado / Utah Oil & Gas Projects

In July 2006, the Company concluded the purchase of interests in 267 oil and gas leases covering 254,068 net acres in the Piceance and Uinta Basins in the States of Colorado and Utah from Retamco Operating Co. (“Retamco”), a private Texas corporation. The cost to the Company was \$25,182,532 and included cash of \$5,511,000 (US \$5,000,000), 5,500,000 common shares valued at \$12,088,991 (US \$10,726,700), a promissory note with face value of \$5,643,000 (US \$5,000,000) and the issuance of a \$1,577,609 (US \$1,397,846) two-year 8% convertible debenture. Additional costs of \$361,932 relating to the acquisition had also been capitalized to the project (refer to Note 9).

In July 2006, the Company also received 183,836 common shares of Brownstone, a working interest partner in the Colorado/Utah Projects, with a fair value of \$306,271 recorded as a finder’s fee for assisting Brownstone in its purchase of its 10% interest in the above Retamco projects (refer to Note 4).

In June 2008, the Company entered into a Purchase and Sale Agreement with Retamco, resulting in the acquisition of an additional 64,000 net acres. The additional acreage was acquired in exchange for the Company’s 25% working interest in approximately 3,500 acres and two wells at North Barcus Creek, and a cash payment of \$4,078,800 (US\$4,000,000). The North Barcus Creek wells were drilled on joint acreage by Retamco at the end of 2007 and are awaiting production tie-in. As part of the transaction, Brownstone provided the Company with a \$4,078,800 (US \$4,000,000) secured loan, due on July 1, 2009, which was used to purchase the additional acreage interests (refer to Note 10(a)).

During the year ended December 31, 2008, a number of leases expired. As a result, the Company recorded an impairment of oil and gas properties of \$2,029,942.

As at December 31, 2008, the Company had working interests ranging from 25% to 72% and net revenue interests ranging from 78% to 87.5%, in approximately 272,777 net acres of lands in US.

Tinsley and Lavaca Projects

In 2006, the Company was advised by the operator of the Tinsley and Lavaca Prospect that the wells were not economic. As a result, the Company recorded an impairment provision of \$2,596,074. The Company currently holds interests in these oil and gas properties and carries two of these properties at \$1 each, as it has not yet determined if these two properties contain any economical resources. In 2007, the Company re-activated the Tinsley Prospect and entered into a new contract to test and drill the area. There were no activities during 2008.

Canadian Oil and Gas Projects

In October 2006, DEAL concluded a Participation Agreement allowing it to participate in the drilling of a natural gas well in an area known as the Noel Area, in British Columbia, Canada. DEAL paid 15% of the costs to earn a 9.375% working interest in 2,220 acres with an option to drill additional wells earning 2,220 acres to a maximum of 10,725 acres. Drilling commenced in the 1<sup>st</sup> quarter of 2007 and the well was dry. The Company recorded an impairment provision of \$678,044 during the year ended December 31, 2007.

As at December 31, 2008, the Company owned an average 54% working interest in approximately 39,283 acres of lands in Canada.

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 7 – RESOURCE PROPERTIES (continued)**

**(b) Oil and Gas Properties (continued)**

Canadian Oil and Gas Projects (continued)

The Company's exploration and development activities relating to the Canadian oil and gas properties for the year ended December 31, 2008 are summarized in the table below.

A continuity summary of capitalized acquisition costs and exploration expenditures in the Company's oil and gas properties for the years ended December 31, 2008 and 2007 are as follows:

	Balance Dec. 31, 2006	Acquisition Costs	Exploration & Development	Write-down	Balance Dec. 31, 2007	Acquisition Costs	Exploration & Development	Corporate Costs & Capitalized Interests	Write-down	Balance Dec. 31, 2008
<b>US Oil and Gas Properties:</b>										
Colorado / Utah										
Projects	\$ 25,182,532	\$ 285,176	\$ 1,940,653	\$ -	\$ 27,408,361	\$ 3,807,764	\$ 139,541	\$ -	\$ (2,029,942)	\$ 29,325,724
Lavaca Project	-	381	-	-	381	-	-	-	-	381
Tinsley Prospect	1	37,023	-	-	37,024	130,268	-	-	-	167,292
Turtle Bayou, Louisiana	1	-	-	-	1	-	-	-	-	1
	<u>25,182,534</u>	<u>322,580</u>	<u>1,940,653</u>	<u>-</u>	<u>27,445,767</u>	<u>3,938,032</u>	<u>139,541</u>	<u>-</u>	<u>(2,029,942)</u>	<u>29,493,398</u>
<b>Canadian Oil and Gas Properties:</b>										
Carson Creek	-	-	535,504	-	535,504	625	1,243,900	-	-	1,780,029
Drake	-	731,265	1,733,014	-	2,464,279	9,012	6,060,338	-	-	8,533,629
Montney	-	-	-	-	-	907,732	2,000	69,316	-	979,048
Saddle Hills	-	9,724	501,528	-	511,252	-	452,359	-	-	963,611
Woodrush	-	-	20,887	-	20,887	-	10,458,992	-	-	10,479,879
Others	1	905,068	3,509,785	(678,044)	3,736,810	17,428	4,234,361	-	-	7,988,599
Asset retirement obligations	-	-	-	-	-	-	-	404,311	-	404,311
Property depletion	-	-	-	-	-	-	-	(3,635,777)	-	(3,635,777)
	<u>1</u>	<u>1,646,057</u>	<u>6,300,718</u>	<u>(678,044)</u>	<u>7,268,732</u>	<u>934,797</u>	<u>22,451,950</u>	<u>(3,162,150)</u>	<u>-</u>	<u>27,493,329</u>
	<u>\$ 25,182,535</u>	<u>\$ 1,968,637</u>	<u>\$ 8,241,371</u>	<u>\$ (678,044)</u>	<u>\$ 34,714,499</u>	<u>\$ 4,872,829</u>	<u>\$ 22,591,491</u>	<u>\$ (3,162,150)</u>	<u>\$ (2,029,942)</u>	<u>\$ 56,986,727</u>

In determining the Company's depletion, \$979,048 (2007: nil) of unproven properties was excluded from the depletion calculation. Future development costs required to complete proved, undeveloped wells of \$1,199,000 were added to the Company's Canadian oil and gas properties net book value in the depletion calculation. The Company performed a ceiling test calculation at December 31, 2008 to assess the recoverable value of the properties. The oil and gas future prices are based on the January 1, 2009 commodity price forecast of independent reserve evaluators. Based on these assumptions, the undiscounted value of future net revenues from the Company's proved reserves exceeded the carrying value of oil and gas properties at December 31, 2008.

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 8 – BANK LINE OF CREDIT**

In August 2008, DEAL secured a revolving operating loan facility with a Canadian Bank for up to \$7,000,000, subject to certain production targets. This facility, secured by DEAL’s oil and gas assets in Canada, is at an interest rate of Canadian prime plus 1%. As at December 31, 2008, \$5,550,000 had been drawn on the line of credit. In accordance with the terms of the facility, DEAL is required to maintain an adjusted working capital ratio of not less than 1.10:1. The adjusted working capital ratio is defined as the ratio of (i) current assets plus any undrawn availability under the facility, to (ii) current liabilities less any amount drawn under the facility. This working capital ratio requirement only applies to DEAL, not to the parent company. As at December 31, 2008, DEAL’s adjusted working capital ratio was approximately 0.60:1 and therefore was not in compliance with the covenant related to the loan facility. However, DEAL is currently working with the bank to restructure the loan terms and to correct the loan facility covenant violation.

**NOTE 9 – CONVERTIBLE DEBENTURES**

The convertible debentures, denominated in US dollars, were unsecured, bore an 8% coupon, payable quarterly and were convertible at US \$1.35 per unit. The debentures matured on July 15, 2008. Each unit consisted of one common share and one warrant, exercisable at US \$1.50 per share, expiring on July 15, 2008. During the year ended December 31, 2008, \$47,422 (US \$46,505) of interest payable was capitalized to principal of the convertible debentures, and prior to July 15, 2008 all of the outstanding convertible debentures, \$1,069,635 (US \$1,047,995) plus \$144,862 (US \$145,731) of capitalized interests, were converted to 884,242 common shares. During the year ended December 31, 2007, \$367,386 (US \$349,850) of convertible debentures plus \$14,030 (US \$12,493) of interest payables were converted to 273,399 common shares and \$97,440 (US \$99,226) of interest payable was capitalized as principal of the convertible debentures. The convertible debenture was made up of the following:

	In US Dollar		Canadian Dollar Equivalent	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
8% convertible debenture	US\$ -	US\$ 1,047,995	\$ -	\$ 1,029,131
Capitalization of interest	-	99,226	-	97,440
	-	1,147,221	-	1,126,571
Equity portion	-	(247,730)	-	(243,270)
Accumulated amortization of discount	-	163,243	-	160,304
Balance	US\$ -	US\$ 1,062,734	\$ -	\$ 1,043,605

**NOTE 10 – LOANS FROM JOINT-VENTURE PARTNER AND RELATED PARTY**

**(a) Loan from joint-venture partner**

On June 18, 2008, a promissory note with a face value of \$4,078,800 (US \$4,000,000) was issued to Brownstone (refer to Note 7(b)). The US \$4,000,000 promissory note is secured by a general security agreement issued by the Company in favour of Brownstone, and bears interest at 5% per annum. The principal and interest are repayable by the earlier of the Company completing an equity or debt financing and July 1, 2009. On July 1, 2008, a repayment of \$222,948 (US\$220,000) was made and as at December 31, 2008, \$4,604,040 (US\$3,780,000) remained outstanding.

**(b) Loan from related party**

On May 15, 2008, DEAL issued a promissory note for up to \$2,000,000 to a private company controlled by the Chief Executive Officer (“CEO”) of the Company. The promissory note is secured by the assets, equipment, fixtures, inventory and accounts receivable of DEAL, bears interest at the Royal Bank of Canada Prime Rate per annum, and has a loan fee of 1% of the outstanding amount per month. The principal, interest and loan fee were payable on demand after August 15, 2008, upon 10 days written notice by the lender. Upon securing the bank line of credit (refer to Note 8), the private company controlled by the CEO of the Company signed a subordination and postponement agreement which restricts the principal repayment of the promissory note subject to the bank’s prior approval and DEAL meeting certain loan covenants (refer to Note 8). As at December 31, 2008, \$1,950,000 had been advanced on the promissory note.

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 10 – LOANS FROM JOINT-VENTURE PARTNER AND RELATED PARTY (continued)**

**(b) Loan from related party (continued)**

On August 11, 2008, the Company borrowed \$600,000 from a private company controlled by the CEO of the Company. The loan is secured by all assets of the Company, repayable on demand, bears interest at the Canadian prime rate per annum, and has a loan fee of 1% of the outstanding amount per month. There is no specific term of principal repayment, but the interest and loan fee are payable monthly.

On September 12, 2008, as consideration for the private company controlled by the CEO of the Company agreeing to postpone the \$2,000,000 promissory note and providing the additional loan of \$600,000, the private company was granted an option to become a working interest partner with DEAL. Upon electing to become a working interest partner, the private company must pay DEAL an amount equal to 10% of the actual price paid for the acquisition of the lands in the emerging “Montney” natural gas resource play in northeastern British Columbia. The private company is also required to pay its pro-rata share of the operating costs. Subsequent to December 31, 2008, the private company controlled by the CEO of the Company exercised its option and elected to become a working interest partner with DEAL. The option price was \$90,642.

The transactions are considered to be in the normal course of operations and are measured at the exchange amounts which are the amounts established and agreed to by the related parties.

**NOTE 11 – ASSET RETIREMENT OBLIGATIONS**

The total future asset retirement obligations were estimated based on the Company’s net ownership interest in all wells and facilities, the estimated cost to abandon and reclaim the wells and facilities and the estimated timing of the cost to be incurred in future periods. The Company estimated the total undiscounted amount of the cash flows required to settle the retirement obligations related to its oil and gas properties in Canada as at December 31, 2008 to be \$720,137. These obligations are expected to be settled by year 2029. A credit adjusted risk-free rate of 5% and an inflation rate of 2.5% was used to calculate the present value of the asset retirement obligations.

Balance at December 31, 2007	\$	-
Liabilities incurred during the year		404,311
Accretion expense		16,412
Actual costs incurred		(57,614)
		<u>363,109</u>
Balance at December 31, 2008	<u>\$</u>	<u>363,109</u>

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 12 – SHARE CAPITAL**

Authorized:           Unlimited common shares  
                          Unlimited first preferred shares, issuable in series  
                          Unlimited second preferred shares, issuable in series

	Common Shares	Value
Balance at December 31, 2006	60,899,723	\$ 48,671,383
- For conversion of convertible debenture	273,399	394,752
- For cash by private placements	4,773,980	11,287,668
- For cash on exercise of warrants	3,444,490	2,859,863
- For cash on exercise of stock options	736,737	557,800
- Contributed surplus reallocated on exercise of stock options	-	335,038
- Renounced flow through share expenditures	-	(2,712,540)
	70,128,329	61,393,964
Balance at December 31, 2007	70,128,329	61,393,964
- For conversion of convertible debenture	884,242	1,214,497
- For cash on exercise of stock options	1,681,048	887,621
- For cash on exercise of warrants	958,263	1,447,464
- Contributed surplus reallocated on exercise of stock options	-	532,531
- Renounced flow through share expenditures	-	(536,900)
	73,651,882	\$ 64,939,177
Balance at December 31, 2008	73,651,882	\$ 64,939,177

**During the year ended December 31, 2008:**

In January 2008, the Company renounced \$1,820,000 flow-through funds to investors, using the look-back rule. Of this \$1,820,000, \$263,222 of renounced Canadian Exploration Expenditures (“CEEs”) had been spent by December 31, 2007 and the remaining flow-through funds had been fully spent by February 29, 2008. As a result of the renunciation, future income tax recovery of \$536,900 was recognized against share capital.

In February 2008, the Company filed a Part XII.6 tax return with the Canada Revenue Agency related to CEEs with an effective date of renunciation of December 31, 2006 and paid \$236,348 of Part XII.6 tax.

**During the year ended December 31, 2007, the Company completed the following private placements:**

In May 2007, the Company completed a private placement and issued 3,773,980 Units at \$2.65 per Unit. Each Unit consists of one common share and half of one share purchase warrant, exercisable at \$3.35 per share before May 25, 2009. Gross proceeds raised were \$10,001,047. The Company paid finders’ fees of \$493,215 and other related costs of \$30,564. The Company also issued 217,139 agent compensation options, exercisable at \$3.35 per share before December 31, 2008. The grant date fair values of the agents’ options, estimated to be \$43,428, were included in share capital on a net basis and accordingly were not recorded as a separate component of shareholders’ equity.

In November 2007, the Company completed a private placement and issued 1,000,000 flow-through shares (“FTS”) at \$1.82 per share. Gross proceeds raised of \$1,820,000 were committed to be spent on CEE, of which \$263,222 had been spent to December 31, 2007. In connection with this private placement, the Company paid \$9,600 related costs. There were no finders’ fees or commissions related to this private placement.

**DEJOUR ENTERPRISES LTD.**  
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**NOTE 13 – STOCK OPTIONS AND SHARE PURCHASE WARRANTS**

During the year ended December 31, 2008, the Company granted 4,945,000 (2007 – 3,095,000) options to its officers, directors, consultants, employees and advisors. In addition, 1,693,053 (2007 – 1,291,567) options were cancelled or expired with a weighted average exercise price at \$1.83.

As at December 31, 2008, there were 7,198,380 options outstanding with a weighted average exercise price at \$1.22, of which 3,255,505 were vested. The vested options can be exercised for up to periods ending October 28, 2013 to purchase common shares of the Company at prices ranging from \$0.275 to \$2.10 per share.

The Company expenses the fair value of all stock options granted over their respective vesting periods for directors and employees and over the service life for consultants. The fair value of the options granted during the year ended December 31, 2008 was determined to be \$2,406,250 (2007 - \$4,572,350). The Company determined the fair value of stock options granted using the Black-Scholes option pricing model using the following weighted average assumptions: Expected option life of 4.05 years (2007 – 4.40 years), risk-free interest rate of 2.95% (2007 – 3.92%) and expected volatility of 81.10% (2007 – 91.09%).

During the year ended December 31, 2008, the Company recognized a total of \$2,719,957 (2007 - \$2,461,400) of stock based compensation relating to the vesting of options.

As at December 31, 2008, there were 3,942,875 unvested options included in the balance of the outstanding options. The following table summarizes information about stock option transactions:

	Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance, December 31, 2006	4,560,785	\$ 1.14	1.93 years
Options granted	3,095,000	2.20	
Options exercised	(736,737)	0.76	
Options cancelled and expired	(1,291,567)	2.39	
Balance, December 31, 2007	5,627,481	1.49	1.96 years
Options granted	4,945,000	0.88	
Options exercised	(1,681,048)	0.53	
Options cancelled and expired	(1,693,053)	1.83	
Balance, December 31, 2008	7,198,380	\$ 1.22	2.94 years

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 13 – STOCK OPTIONS AND SHARE PURCHASE WARRANTS (continued)**

Details of stock options vested and exercisable as at December 31, 2008 are as follows:

Number of Options Outstanding and vested	Exercise Price	Weighted Average Remaining Contractual Life (Years)
109,630	\$ 0.275	0.83
43,125	0.450	1.82
120,250	0.450	4.83
200,000	1.400	0.25
781,417	1.400	1.91
18,750	1.450	2.33
150,000	1.500	2.12
125,000	1.600	0.01
18,750	1.750	0.84
947,500	2.000	2.67
741,083	2.100	0.33
<u>3,255,505</u>	<u>\$ 1.663</u>	<u>1.67</u>

The following table summarizes information about warrant transactions:

	Outstanding Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance, December 31, 2006	4,544,506	\$ 1.03	0.41 years
Warrants issued	2,372,531	3.15	
Warrants exercised	(3,444,490)	0.83	
Warrants expired	(1,100,016)	1.64	
Balance, December 31, 2007	2,372,531	3.15	1.31 years
Warrants issued	884,242	1.53	
Warrants exercised	(958,263)	1.53	
Warrants expired	(194,381)	1.53	
Balance, December 31, 2008	<u>2,104,129</u>	<u>\$ 3.35</u>	<u>0.40 years</u>

Details of warrants outstanding as at December 31, 2008 are as follows:

Number of Warrants Outstanding	Exercise Price	Weighted Average Remaining Contractual Life (Years)
<u>2,104,129</u>	<u>\$ 3.35</u>	<u>0.40</u>

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 14 – CONTRIBUTED SURPLUS**

Details of changes in the Company's contributed surplus balance are as follows:

Balance at December 31, 2006	\$ 1,648,398
Stock compensation on vesting of options	2,461,400
Value of conversion feature on convertible debenture	(39,490)
Allocated to share capital on exercise of options	<u>(335,038)</u>
Balance at December 31, 2007	3,735,270
Stock compensation on vesting of options	2,719,957
Value of conversion feature on convertible debenture	(27,136)
Allocated to share capital on exercise of options	<u>(532,531)</u>
Balance at December 31, 2008	<u><u>\$ 5,895,560</u></u>

**NOTE 15 – SUPPLEMENTAL CASH FLOW INFORMATION**

	<u>December 31,</u> <u>2008</u>	December 31, 2007
<b>Changes in non-cash working capital balances:</b>		
Accounts receivable	\$ (782,856)	\$ -
Prepays and other receivables	219,170	(303,038)
Advances for oil and gas projects	790,487	(1,006,917)
Accounts payable and accrued liabilities	1,077,635	35,684
	<u>\$ 1,304,436</u>	<u>\$ (1,274,271)</u>
<b>Changes in non-cash financing and investing activities:</b>		
Common shares issued for convertible debentures	\$ 1,214,497	\$ 394,752
Conversion feature on convertible debenture	(27,136)	(39,490)
Convertible debentures issued	-	1,043,605
<b>Other cash flow information:</b>		
Interest paid	<u>\$ 374,679</u>	<u>\$ 92,201</u>
<b>Components of cash and cash equivalents</b>		
Cash	\$ 406,775	\$ 5,565,701
Money market instruments	-	358,424
Bank acceptances	-	7,587,530
	<u>\$ 406,775</u>	<u>\$ 13,511,655</u>

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 16 – RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2008 and 2007, the Company entered into the following transactions with related parties:

- (a) The Company incurred a total of \$608,279 (2007 - \$777,021) in consulting fees, directors and meeting attendance fees to independent directors and private companies controlled by officers and directors of the Company.
- (b) The Company received total rental income of \$28,700 (2007 - \$Nil) from private companies controlled by officers of the Company.
- (c) DEAL incurred a total of \$173,333 (2007 - \$172,750) in consulting fees to a private company controlled by the President of DEAL.
- (d) On May 15, 2008, DEAL issued a promissory note for up to \$2,000,000 to a private company controlled by the CEO of the Company. As at December 31, 2008, \$1,950,000 had been advanced on the promissory note. On August 11, 2008, the Company borrowed \$600,000 from the private company controlled by the CEO of the Company (refer to Note 10(b)).

These transactions are in the normal course of operations and are measured at the exchange amount established and agreed to by the related parties.

**NOTE 17 – FUTURE INCOME TAXES**

The actual income tax provisions differ from the expected amounts calculated by applying the Canadian combined federal and provincial corporate income tax rates to the Company's loss before income taxes. The components of these differences are as follows:

	<b>2008</b>		<b>2007</b>
Loss before income taxes	\$ (20,294,513)	\$	(31,031,447)
Corporate tax rate	<b>31.00%</b>		30.83%
Expected tax recovery	<b>(6,291,299)</b>		(9,566,995)
Increase (decrease) resulting from:			
Differences in foreign tax rates and change in effective tax rates	<b>(84,595)</b>		192,229
Impact of foreign exchange rate changes	<b>(350,194)</b>		-
Titan shares and warrants investment	<b>886,123</b>		4,398,806
Change in future tax asset valuation allowance	<b>5,407,647</b>		-
Stock based compensation, share issue costs and other permanent differences	<b>1,122,460</b>		1,402,088
Other adjustments	<b>(93,902)</b>		(646,902)
Future income taxes expense (recovery)	<b>\$ 596,240</b>	\$	(4,220,774)

**DEJOUR ENTERPRISES LTD.**  
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**NOTE 17 – FUTURE INCOME TAXES (continued)**

The Company's tax-effected future income tax assets and liabilities are made up as follows:

	2008	2007
Future income tax assets		
Non-capital losses available	\$ 5,253,487	\$ 1,635,108
Capital losses available	1,594,217	964,695
Share issue costs and other	322,842	401,468
	7,170,546	3,001,271
Future income tax liabilities		
Long term investments	(392,403)	(1,202,370)
Resource pools in excess of net book value	(1,312,812)	(608,077)
	(1,705,215)	(1,810,447)
Net future income tax assets	5,465,331	1,190,824
Valuation allowance	(6,598,471)	(1,190,824)
Net future income tax liabilities	\$ (1,133,140)	\$ -

The Company has approximately \$16,446,000 (2007 – \$5,304,000) of non-capital losses which can be applied to reduce future taxable income, expiring as follows:

Year of Expiry	Amount
2015	1,729,000
2026	2,830,000
2027	4,739,000
2028	7,148,000
	16,446,000

In addition, the Company has Canadian exploration and development expenditures totaling approximately \$23,979,000, unamortized share issue costs of approximately \$798,000 and capital loss carry forwards of approximately \$11,058,000 which may be available to reduce future taxable income. Both the exploration and development expenditures and the capital losses can be carried forward indefinitely.

**NOTE 18 – COMMITMENT**

Effective May 1, 2005, the Company entered in to a five year lease on its office premises. Under the terms of the lease the Company is required to make minimum annual payments. The Company is committed under operating lease agreement for the premises to future minimum payments as follows:

2009	\$ 101,053
2010	34,320
	\$ 135,373

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 19 – SEGMENTED DISCLOSURE**

As at December 31, 2008 and 2007, the Company's significant assets, losses and revenue by geographic location were as follows:

	December 31, 2008	December 31, 2007
<b>Canada</b>		
Revenue	\$ 5,751,672	\$ -
Interest and other income	124,208	806,147
Future income tax (expense) recovery	(596,240)	4,220,774
Segmented loss	(17,301,636)	(26,738,906)
<b>Assets:</b>		
Current Assets	1,428,149	14,528,145
Equipment, net	80,701	87,399
Investment in Titan	2,721,875	12,600,000
Uranium properties	696,991	696,991
Oil and gas properties	27,493,329	7,268,733
	<u>32,421,045</u>	<u>35,181,268</u>
<b>U.S.A.</b>		
Revenue	\$ 13,883	\$ -
Interest and other income	112,630	-
Segmented loss	(3,589,117)	(71,767)
<b>Assets:</b>		
Current Assets	355,410	515,577
Equipment, net	35,883	888
Investment in Titan	-	-
Oil and gas properties	29,493,398	27,445,766
	<u>29,884,691</u>	<u>27,962,231</u>
<b>Total assets</b>	<u>\$ 62,305,736</u>	<u>\$ 63,143,499</u>

**NOTE 20 – FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT STRATEGY**

The Company is engaged primarily in mineral and oil and gas exploration and production and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations.

The Company's functional currency is the Canadian dollar. The Company operates in foreign jurisdictions, giving rise to significant exposure to market risks from changes in foreign currency rates. The financial risk is the risk to the Company's operations that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company also has exposure to a number of risks from its use of financial instruments including: credit risk, liquidity risk, and market risk. This note presents information about the Company's exposure to each of these risks and the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 20 – FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT STRATEGY**  
**(continued)**

**(a) Credit Risk**

Credit risk relates to the Company's receivables from joint venture partners and oil and natural gas marketers and the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's accounts receivable are with customers in the energy industry and are subject to normal industry credit risk. The Company generally grants unsecured credit but routinely assesses the financial strength of its partners and marketers.

Receivables from oil and natural gas marketers are normally collected on the 25<sup>th</sup> day of the month following production. The Company sells the majority of its production to one oil and natural gas marketer and therefore is subject to concentration risk. To date the Company has not experienced any collection issues with its oil and natural gas marketer. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining joint venturer approval of significant capital expenditures prior to expenditure. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint venture partners as disagreements occasionally arise that increases the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint venturers; however in certain circumstances, it may elect to cash call a joint venture partner in advance of the work, and it also has the ability to withhold production from joint venture partners in the event of non-payment.

As at December 31, 2008, the Company's receivables consisted of \$282,786 (2007 – \$858,088) from joint venture partners, \$424,207 (2007 – \$Nil) of receivables from an oil and natural gas marketer, and \$75,863 (2007 – \$333,030) of other receivables. The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at December 31, 2008.

**(b) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

As the industry in which the Company operates is very capital intensive, the majority of the Company's spending is related to its capital programs. The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving reserve based credit facility (see Note 8). The Company also attempts to match its payment cycle with collection of oil and natural gas revenues on the 25<sup>th</sup> of each month.

Accounts payable are considered due to suppliers in one year or less while the bank line of credit, which is subject to renewal after a 364-day revolving period, could be potentially due within the next year if the facility is not renewed for a further 364-day period.

**(c) Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company utilizes financial derivatives to manage certain market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

**DEJOUR ENTERPRISES LTD.**  
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**NOTE 20 – FINANCIAL INSTRUMENTS, RISK MANAGEMENT AND CAPITAL MANAGEMENT STRATEGY  
(continued)**

**(d) Foreign Currency Exchange Risk**

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollars. Given that changes in exchange rate have an indirect influence, the impact of changing exchange rates cannot be accurately quantified. The Company had no forward exchange rate contracts in place as at or during the year ended December 31, 2008.

**(e) Interest Rate Risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its credit facility which bears a floating rate of interest. The Company had no interest rate swaps or financial contracts in place at or during the year ended December 31, 2008.

**(f) Commodity Price Risk**

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by world economic events that dictate the levels of supply and demand. The Company has attempted to mitigate commodity price risk through the use of financial derivative sales contracts. As at December 31, 2008, the Company had outstanding a natural gas derivatives contract for 1,000 gigajoules ("GJ") per day for the period from January 1, 2009 to December 31, 2009. This contract consisted of a \$6.27 CAD per GJ forward sale agreement. During the year ended December 31, 2008, no gain was realized under this contract. However, as at December 31, 2008, an unrealized gain of \$107,768 relating to this contract was recorded in accumulated other comprehensive income.

**(g) Capital Management Strategy**

The Company's policy on capital management is to maintain a prudent capital structure so as to maintain financial flexibility, preserve access to capital markets, maintain investor, creditor and market confidence, and to allow the Company to fund future development. The Company considers its capital structure to include shareholders' equity of \$44,363,677 (2007 – \$59,435,759), bank line of credit of \$5,550,000 (2007 – \$Nil), loan from joint-venture partner of \$4,604,040 (2007 – \$Nil), loan from related party of \$2,550,000 (2007 – \$Nil), and working capital deficiency excluding unrealized financial instrument gain of \$12,820,019 (2007 working capital – \$11,335,982). In order to maintain or adjust capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected operating cash flows and debt levels.

The Company's share capital is not subject to any external restrictions. The revolving operating loan facility with a Canadian Bank (see Note 8) has no restrictions other than a requirement to maintain an adjusted working capital ratio of not less than 1.10:1 by DEAL. As at December 31, 2008, the Company was in compliance with all flow-through share expenditure requirements but was not in compliance with the covenant related to the loan facility as DEAL's adjusted working capital ratio was approximately 0.60:1. However, DEAL is currently working with the bank to restructure the loan terms and to correct the loan facility covenant violation. The Company has not paid or declared any dividends, nor are any contemplated in the foreseeable future. There have been no changes to the Company's capital management strategy during the year ended December 31, 2008.

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 21 – SUBSEQUENT EVENTS**

**(a) Stock Options and Share Issuances**

Subsequent to December 31, 2008, the Company granted a total of 1,223,000 incentive stock options with a weighted average exercise price at \$0.46 per share to independent directors, management, officers, employees and consultants of the Company.

Subsequent to December 31, 2008, 73,630 common shares were issued upon the exercise of stock options for proceeds of \$20,248, 249,750 incentive stock options were forfeited, and 2,410,000 incentive stock options were cancelled.

**(b) Investment in Titan Uranium Inc.**

Subsequent to December 31, 2008, the Company received proceeds of \$2,159,722 from the sale of 16,150,000 Titan shares, resulting in a loss of \$464,653. As at March 20, 2009, the Company had 600,000 shares of Titan.

**(c) Natural Gas Derivatives Contract**

As at December 31, 2008, the Company had outstanding a natural gas derivatives contract for 1,000 GJ per day for the period from January 1, 2009 to December 31, 2009. This contract consisted of a \$6.27 CAD per GJ forward sale agreement. Subsequent to December 31, 2008, the Company unwound the natural gas hedge, resulting in a realized gain of \$289,561.

**(d) Loan from Related Party**

On August 11, 2008, the Company borrowed \$600,000 from a private company controlled by the CEO of the Company. Subsequent to December 31, 2008, the \$600,000 loan had been repaid. Refer to Note 10(b).

Subsequent to December 31, 2008, a private company controlled by the CEO of the Company exercised its option and elected to become a working interest partner with DEAL. Refer to Note 10(b). The private company's option price was \$90,642, equal to 10% of the actual price paid for the acquisition of the lands in the emerging "Montney" natural gas resource play in northeastern British Columbia. The private company is also required to pay its pro-rata share of the operating costs.

**NOTE 22 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP")**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). A description of US GAAP and practices prescribed by the US Securities and Exchange Commission ("SEC") that result in material measurement differences from Canadian GAAP are as follows:

**(a) Interest in unproven mineral properties**

Under US GAAP, pursuant to EITF 04-2, the Company classified its mineral rights as tangible assets and accordingly acquisition costs are capitalized as mineral property costs. US GAAP requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company is to estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized. Mineral exploration costs are expensed as incurred until commercially mineable deposits are determined to exist within a particular property. Accordingly, for all periods presented, the Company has capitalized all mineral exploration costs for US GAAP purposes unless the costs relate to unproven mineral properties. In addition, under Canadian GAAP, cash flows relating to unproven mineral property costs are reported as investing activities. For US GAAP, these costs are classified as operating activities.

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 22 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“US GAAP”) (continued)**

**(b) Stock-based compensation**

The Company has granted stock options to certain directors, employees and consultants. Under Canadian GAAP, prior to 2003, no compensation expense was recorded in connection with the granting of stock options. Under previous US GAAP, the Company accounted for stock-based compensation in respect of stock options granted to directors and employees using the intrinsic value based method in accordance with APB Opinion No. 25. Stock options granted to non-employees were accounted for by applying the fair value method using the Black-Scholes option pricing model in accordance with Statement of Financial Accounting Standards No. 123 (“SFAS 123”). Commencing January 1, 2003, under Canadian GAAP the Company expenses the fair value of all stock options granted and under US GAAP has elected to prospectively change its accounting policy to account for all stock options granted in accordance with SFAS 123. On December 16, 2004, the FASB issued SFAS 123(R), “*Share-Based Payment*”, which is a revision of SFAS 123. SFAS 123(R) supersedes APB Opinion 25, and amends SFAS 95, “*Statement of Cash Flows*”. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values at the date of grant. As a result, effective January 1, 2003, there is no material difference between the Company’s accounting for stock options under US GAAP versus Canadian GAAP.

**(c) Income taxes**

Under US GAAP, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Under Canadian GAAP, the effect of a change in tax rates is recognized in the period of substantive enactment. The application of this difference under US GAAP does not result in a material difference between future income taxes as recorded under Canadian GAAP.

**(d) Flow-through shares**

Under Canadian GAAP, future income tax liabilities resulting from the renunciation of qualified resource expenditures by the Company in connection with the issuance of flow-through common shares are recorded as a reduction of share capital at the time of renunciation. Under US GAAP, the cost of the renounced expenditures is recorded as a liability and reduction of share capital on issuance of the flow through shares. Under Canadian GAAP, the amount of this reduction is measured as the tax effected value of the renounced expenditures while under US GAAP, the amount of this reduction is measured by comparison of the flow-through common share price versus the fair value of the Company’s ordinary common shares.

**(e) Reporting comprehensive income**

Statement of Financial Accounting Standards No. 130 (“SFAS 130”), “Reporting Comprehensive Income”, establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income equals net income for the year as adjusted for all other non-owner changes in shareholders’ equity. SFAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement. Effective January 1, 2007, the Company adopted new Canadian GAAP accounting standards issued by CICA relating to financial instruments. The new standards have been adopted on a prospective basis with no restatement to prior period financial statements. These new standards substantially harmonize Canadian GAAP with US GAAP with respect to reporting comprehensive income and loss. During the year, other comprehensive income recognized is \$107,768 (2007 loss – \$5,400). For the year ended December 31, 2006, comprehensive loss equals the loss for the year under US GAAP.

**DEJOUR ENTERPRISES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 22 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“US GAAP”) (continued)**

**(f) Statements of cash flows**

For Canadian GAAP, all cash flows relating to mineral property costs are reported as investing activities. For US GAAP, mineral property acquisition costs would be characterized as investing activities and mineral property exploration costs as operating activities.

The Company has included a subtotal in cash flows from operating activities. Under US GAAP, no such subtotal would be disclosed.

**(g) Recent accounting pronouncements**

In March 2008, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS 161 achieves these improvements by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity's liquidity by requiring disclosure of derivative features that are credit risk-related. Finally, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. SFAS 161, effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, will be adopted by the Company beginning in the first quarter of 2009. The Company does not expect there to be any significant impact of adopting SFAS 161 on its financial position, cash flows and results of operations.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles”. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. It is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles”. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

In May 2008, FASB issued SFAS No. 163, “Accounting for Financial Guarantee Insurance Contracts – An interpretation of FASB Statement No. 60”. SFAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. It also clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities, and requires expanded disclosures about financial guarantee insurance contracts. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, except for some disclosures about the insurance enterprise's risk-management activities. SFAS 163 requires that disclosures about the risk-management activities of the insurance enterprise be effective for the first period beginning after issuance. Except for those disclosures, earlier application is not permitted. The adoption of this statement is not expected to have a material effect on the Company's financial statements.

**DEJOUR ENTERPRISES LTD.**  
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**NOTE 22 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“US GAAP”) (continued)**

**(h) Reconciliation**

The effect of the differences between Canadian GAAP and US GAAP (including practices prescribed by the SEC) on the balance sheets, statements of operations and cash flows are summarized as follows:

**(i) Assets**

	December 31, 2008	December 31, 2007
Total assets, under Canadian GAAP	\$ 62,305,736	\$ 63,143,499
Exploration costs - unproven resource properties	(628,018)	(628,018)
Add: Resource properties accumulated depletion under Canadian GAAP	3,635,777	-
Less: Resource properties accumulated depletion under US GAAP	(4,063,107)	-
Less: Resource properties impairment under US GAAP	(12,395,905)	-
<b>Total assets, under US GAAP</b>	<b>\$ 48,854,483</b>	<b>\$ 62,515,481</b>

**(ii) Liabilities**

	December 31, 2008	December 31, 2007
Total liabilities, under Canadian GAAP	\$ 17,942,059	\$ 3,707,740
Add: flow through issue cost liability under US GAAP	-	70,000
<b>Total liabilities, under US GAAP</b>	<b>\$ 17,942,059</b>	<b>\$ 3,777,740</b>

**(iii) Share Capital**

	December 31, 2008	December 31, 2007
Total share capital, under Canadian GAAP	\$ 64,939,177	\$ 61,393,964
Add: flow through issue cost under Canadian GAAP	4,669,883	4,132,983
Less: flow through issue cost under US GAAP	(185,000)	(185,000)
<b>Total share capital, under US GAAP</b>	<b>\$ 69,424,060</b>	<b>\$ 65,341,947</b>

**DEJOUR ENTERPRISES LTD.**  
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**NOTE 22 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“US GAAP”) (continued)**

**(h) Reconciliation (continued)**

**(iv) Deficit**

	December 31, 2008	December 31, 2007
Deficit, under Canadian GAAP	\$ (26,578,828)	\$ (5,688,075)
Add: gain on disposal of uranium properties	5,652,166	5,652,166
Less: exploration costs - unproven resource property expenditures	(6,280,184)	(6,280,184)
Less: flow through share future tax recovery under Canadian GAAP	(4,669,883)	(4,132,983)
Add: flow through share future tax recovery under US GAAP	185,000	115,000
Add: Resource properties depletion under Canadian GAAP	3,635,777	-
Less: Resource properties depletion under US GAAP	(4,063,107)	-
Less: Resource properties impairment under US GAAP	(12,395,905)	-
<b>Deficit, under US GAAP</b>	<b>\$ (44,514,964)</b>	<b>\$ (10,334,076)</b>

**(v) Net (loss) income for the year**

	For the year ended December 31,		
	2008	2007	2006
Net (loss) income for the year, under Canadian GAAP	\$ (20,890,753)	\$ (26,810,673)	\$ 23,887,726
Add: gain on disposal of uranium properties	-	-	5,652,166
Less: exploration costs - unproven resource property expenditures	-	-	(4,772,771)
Less: flow through share future tax recovery under Canadian GAAP	(536,900)	(2,712,540)	(1,054,308)
Add: flow through share future tax recovery under US GAAP	70,000	-	115,000
Add: Resource properties depletion under Canadian GAAP	3,635,777	-	-
Less: Resource properties depletion under US GAAP	(4,063,107)	-	-
Less: Resource properties impairment under US GAAP	(12,395,905)	-	-
<b>Net (loss) income for the year, under US GAAP</b>	<b>\$ (34,180,888)</b>	<b>\$ (29,523,213)</b>	<b>\$ 23,827,813</b>

**(vi) Cash used in operating activities**

	For the year ended December 31,		
	2008	2007	2006
Cash used in operating activities, under Canadian GAAP	\$ (293,427)	\$ (5,188,462)	\$ (1,769,373)
Less: exploration costs - unproven resource property expenditures	-	-	(4,772,771)
<b>Cash used in operating activities, under US GAAP</b>	<b>\$ (293,427)</b>	<b>\$ (5,188,462)</b>	<b>\$ (6,542,144)</b>

**DEJOUR ENTERPRISES LTD.**  
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**NOTE 22 – RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“US GAAP”) (continued)**

**(h) Reconciliation (continued)**

**(vii) Cash used in investing activities**

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	<b>For the year ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Cash used in investing activities, under Canadian GAAP	\$ (27,101,003)	\$ (7,838,377)	\$ (12,146,784)
Add: exploration costs - unproven resource property expenditures	-	-	4,772,771
<b>Cash used in investing activities, under US GAAP</b>	<b>\$ (27,101,003)</b>	<b>\$ (7,838,377)</b>	<b>\$ (7,374,013)</b>