UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to .

Commission File Number 001-33756

Vanguard Natural Resources, LLC

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**61-1521161**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
7700 San Felipe, Suite 485 Houston, Texas	**77063**
(Address of Principal Executive Offices)	(Zip Code)

Telephone Number: (832) 327-2255
Internet Website: www.vnrllc.com
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on which Registered**
Common Units	NYSE Arca, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes☐ No☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes☐ No☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes☐ No☑

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Non-accelerated filer ☑
Accelerated filer ☐	Smaller reporting company

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes☐ No☑

The aggregate market value of Vanguard Natural Resources, LLC Common Units held by non-affiliates of the registrant as of March 12, 2008 was approximately $171,424,600 based upon the New York Stock Exchange composite transaction closing price.

As of March 12, 2008, 10,795,000 of the registrant's Common Units remained outstanding.

Documents Incorporated by Reference:

Portions of the registrant's proxy statement furnished to unitholders on April 28, 2008 in connection with its 2008 Annual Meeting of Unitholders are incorporated by reference in Part III, Items 10-14 of this annual report on Form 10-K for the year ending December 31, 2007 ("this Annual Report").

Forward Looking Statements

The statements contained in this report, other than statements of historical fact, constitute forward-looking statements. Such statements include, without limitation, all statements as to the production of oil and gas, product prices, oil and gas reserves, drilling and completion results, capital expenditures and other such matters. These statements relate to events and/or future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements or the industry in which we operate to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. These risks and other factors include those listed under Item 1A "Risk Factors" and those described elsewhere in this report.

In some cases, you can identify forward-looking statements by our use of terms such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "intends," "predicts," "potential," or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined under "Risk Factors." These factors may cause our actual results to differ materially from any forward-looking statement. Factors that could affect our actual results and could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, the following:

- the volatility of realized natural gas and oil prices;
- the conditions of the capital markets, interest rates, availability of credit facilities to support business requirements, liquidity and general economic conditions;
- the discovery, estimation, development and replacement of oil and natural gas reserves;
- our business and financial strategy;
- our drilling locations;
- technology;
- our cash flow, liquidity and financial position;
- our production volumes;
- our operating expenses, general and administrative costs, and finding and development costs;
- the availability of drilling and production equipment, labor and other services;
- our future operating results;
- our prospect development and property acquisitions;
- the marketing of oil and natural gas;
- competition in the oil and natural gas industry;
- the impact of weather and the occurrence of natural disasters such as fires, floods, hurricanes, earthquakes and other catastrophic events and natural disasters;
- governmental regulation of the oil and natural gas industry;
- environmental regulations;
- developments in oil-producing and natural gas producing countries; and
- our strategic plans, objectives, expectations and intentions for future operations.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. We do not intend to update any of the forward-looking statements after the date of this report to conform prior statements to actual results.

EXPLANATORY NOTE

Vanguard Natural Resources, LLC (the "Company") is filing this Amendment No. 1 (this "Amendment No. 1") to its Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which was originally filed on March 31, 2008 (the "Original Filing"). This Amendment No. 1 is being filed solely to amend Item 8 of Part II of the Original Filing. The corrections to Item 8 had no impact on the Company's assets, liabilities, members' equity, net income, operating cash flows or net cash flows as of and for the year ended December 31, 2007 as reported in the Original Report. The changes to Item 8 include the following corrections:

- in the Consolidated Statement of Operations for the year ended December 31, 2007, we have corrected the weighted average Common units outstanding, the weighted average Class B Units outstanding and the corresponding basic and diluted earnings per unit calculations for the year ended December 31, 2007. As corrected, basic and diluted earnings per unit for the year ended December 31, 2007 was $0.39, as changed from $0.24 as reported in the Original Filing;

- in the unaudited Supplemental Selected Quarterly Financial Information, we have corrected the total basic and diluted Net income per Common & Class B unit calculations for the year ended December 31, 2007. As corrected, basic and diluted Net income per Common & Class B unit for the year ended December 31, 2007 was $0.39, as changed from $0.24 as reported in the Original Filing; and

- in the Notes to the Financial Statements, we have added a Note 13 to detail the corrections to our Financial Statements that are described above.

In addition, in the unaudited Supplemental Selected Quarterly Financial Information, we have corrected a rounding error in the "Quarter Ended December 31" basic and diluted Net income (loss) per Common & Class B unit so that it now reads $0.10 instead of $0.09 as set forth in the Original Filing.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), this Amendment No. 1 amends the aforementioned items in their entirety and contains new certifications pursuant to Rules 13a-14 and 15d-14 under the Exchange Act and Section 302 of the Sarbanes-Oxley Act of 2002. Other than as set forth above and the inclusion of new certifications pursuant to Rules 13a-14 and 15d-14 under the Exchange Act and Section 302 of the Sarbanes-Oxley Act of 2002, no other changes or amendments to the Original Filing are being made.

Except for the amendments described above, this Form 10-K/A does not modify or update other disclosures in, or exhibits to, the Original Filing. This Amendment No. 1 contains only the sections and exhibits to the Original Filing that are being amended, and those unaffected parts or exhibits are not included in this Amendment No. 1. This Amendment No. 1 continues to speak as of the date of the Original Filing and the Company has not updated the disclosure contained herein to reflect events that have occurred since the date of the Original Filing. Accordingly, this Amendment No. 1 should be read in conjunction with the Company's other filings made with the Securities and Exchange Commission, and is subject to updating and supplementing as provided in the periodic reports that the Company has filed and will file after the date of the Original Filing with the Securities and Exchange Commission.

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index

Below is an index to the items contained in Part II, Item 8, Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Unitholders of
Vanguard Natural Resources, LLC
and Subsidiaries

We have audited the accompanying consolidated balance sheet of Vanguard Natural Resources, LLC (a Delaware limited liability company) and subsidiaries (the "Company") as of December 31, 2007, and the related consolidated statements of operations, members' equity, comprehensive income and cash flows for the year then ended. Our audit also included the financial statement schedule listed in the Index in Item 15(a). These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audit.

We conducted our audit 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 the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vanguard Natural Resources, LLC and subsidiaries as of December 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 13, the accompanying consolidated financial statements have been restated.

/s/ UHY LLP

Houston, Texas
March 31, 2008 (except for effect of the
restatement discussed in Note 13,
as to which the date is May 12, 2008)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members of

Vanguard Natural Gas, LLC

and Subsidiaries

We have audited the accompanying consolidated balance sheet of Vanguard Natural Gas, LLC (formerly Nami Holding Company, LLC), and subsidiaries (the "Company") as of December 31, 2006, and the related consolidated statements of operations and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vanguard Natural Gas, LLC and subsidiaries as of December 31, 2006, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ UHY LLP

Houston, Texas

April 20, 2007

Report of Independent Registered Public Accounting Firm

CERTIFIED PUBLIC

ACCOUNTANTS

BUSINESS
ADVISORS

1729 Midpark Road

Suite C-zoo

Knoxville, TN 37921

865.583.0091 phone

To the Members

Vanguard Natural Gas, LLC

We have audited the accompanying consolidated statements of operations and cash flows of Vanguard Natural Gas, LLC (formerly Nami Holding Company, LLC) for the year ended December 31, 2005. 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 audit.

We conducted our audit 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 the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of Vanguard Natural Gas, LLC's operations and cash flows for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee

April 3, 2007

GREENEVILLE - KNOXVILLE - NASHVILLE - TRI-CITIES

Vanguard Natural Resources, LLC and Subsidiaries
Consolidated Balance Sheet
As of December 31,

	Vanguard	Vanguard Predecessor
	2007	**2006**
Assets		
Current assets		
Cash and cash equivalents	$ 3,109,563	$ 1,730,956
Trade accounts receivable, net	4,372,731	5,269,067
Receivables due from affiliates	—	14,650,936
Other receivables	—	234,456
Derivative assets	4,017,085	—
Other currents assets	453,198	283,884
Total current assets	11,952,577	22,169,299
Property and equipment		
Land	—	46,350
Buildings	—	10,850
Furniture and fixtures	72,893	846,580
Machinery and equipment	138,719	12,681,363
Less: accumulated depreciation	(45,157)	(1,712,535)
Total property and equipment	166,455	11,872,608
Natural gas and oil properties, net – full cost method	106,983,349	104,683,610
Other assets		
Derivative assets	1,329,511	—
Deferred financing costs	941,833	—
Non-current deposits	8,285,883	—
Other assets	1,519,577	—
Total assets	$ 131,179,185	$ 138,725,517
Liabilities and members' equity		
Current liabilities		
Accounts payable - trade	$ 1,056,627	$ 8,756,937
Accounts payable - natural gas and oil	257,073	1,441,941
Payables to affiliates	3,838,328	—
Derivative liabilities	—	2,022,079
Accrued expenses	203,159	1,230,686
Due to member	—	75,000
Total current liabilities	5,355,187	13,526,643
Long-term debt	37,400,000	94,067,500
Derivative liabilities	5,903,384	—
Asset retirement obligations	189,711	418,533
Total liabilities	48,848,282	108,012,676
Commitments and contingencies		
Members' equity		
Members' capital, 10,795,000 common units issued and outstanding at December 31, 2007	90,257,856	30,712,841
Class B units, 420,000 issued and outstanding at December 31, 2007	2,131,995	—
Other comprehensive loss	(10,058,948)	—
Total members' equity	82,330,903	30,712,841

Total liabilities and members’ equity	$ 131,179,185	$ 138,725,517

See accompanying notes to consolidated financial statements.

Vanguard Natural Resources, LLC and Subsidiaries
Consolidated Statement of Operations
For the Years Ended December 31,

	Vanguard	Vanguard Predecessor	
	2007	2006	2005
	(Restated)		
Revenues			
Natural gas and oil sales	$ 34,540,500	$ 38,849,142	$ 40,750,089
Realized losses from derivative contracts	(701,675)	(2,207,902)	(10,024,178)
Change in fair value of derivative contracts	—	17,747,817	(18,778,983)
Total revenues	33,838,825	54,389,057	11,946,928
Costs and expenses			
Lease operating expenses	5,066,230	4,896,327	4,607,198
Depreciation, depletion and amortization	8,981,179	8,633,235	6,189,478
Selling, general and administrative	3,506,539	5,198,760	5,945,613
Bad debt expense	1,007,458	—	—
Taxes other than income	2,053,604	1,774,215	1,248,946
Total costs and expenses	20,615,010	20,502,537	17,991,235
Income (loss) from operations	13,223,815	33,886,520	(6,044,307)
Other income (expense)			
Interest income	61,621	40,256	51,471
Interest expense	(8,134,600)	(7,371,930)	(4,565,712)
Loss on extinguishment of debt expense	(2,501,528)	—	—
Total other expense	(10,574,507)	(7,331,674)	(4,514,241)
Net income (loss)	$ 2,649,308	$ 26,554,846	$ (10,558,548)
Net income per unit:			
Common & Class B units - basic	$ 0.39		
Common & Class B units - diluted	$ 0.39		
Weighted average units outstanding:			
Common units – basic & diluted	6,533,411		
Class B units – basic & diluted	278,945		

See accompanying notes to consolidated financial statements.

Vanguard Natural Resources, LLC and Subsidiaries
Consolidated Statement of Members' Equity
For the Year Ended December 31, 2007

	Common Units	Class B Units	Total Members' Equity
Balance, January 1, 2007	—	—	$ —
Initial contribution	5,540,000	—	3,289,055
Sale of private placement units	—	—	41,220,000
Distribution to member	—	—	(41,220,000)
Issuance of common units, net of offering costs of $9,804,085	5,250,000	—	89,945,916
Distribution to members	—	—	(5,626,423)
Unit-based compensation	5,000	420,000	2,131,995
Net income	—	—	2,649,308
Changes in fair value of commodity hedges	—	—	(10,058,948)
Balance, December 31, 2007	10,795,000	420,000	$ 82,330,903

See accompanying notes to consolidated financial statements.

Vanguard Natural Resources, LLC and Subsidiaries
Consolidated Statement of Cash Flows
For the Years Ended December 31,

	Vanguard	Vanguard Predecessor	
	2007	**2006**	**2005**
Operating activities			
Net income (loss)	$ 2,649,308	$ 26,554,846	$ (10,558,548)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, depletion and amortization	8,981,179	8,633,235	6,189,478
Amortization of deferred financing costs	296,115	—	—
Bad debt expense	1,007,458	—	—
Unit-based compensation	2,131,995	—	—
Change in fair value of derivative contracts	—	(17,747,817)	18,778,983
Changes in operating assets and liabilities:			
Trade accounts receivable	(504,683)	1,634,402	(127,911)
Receivables due from affiliates	(530,809)	(3,448,823)	(8,488,293)
Price risk management activities, net	(11,524,239)	—	—
Other receivables	—	1,004,464	(989,545)
Inventory	—	(54,988)	(51,371)
Other current assets	(340,060)	40,803	91,098
Accounts payable	1,243,817	373,381	6,638,940
Accrued expenses	(2,037,794)	(902,185)	(952,988)
Net cash provided by operating activities	1,372,287	16,087,318	10,529,843
Investing activities			
Additions to property and equipment	(132,371)	(8,486,055)	(2,694,185)
Additions to natural gas and oil properties	(12,821,192)	(28,896,671)	(34,373,612)
Acquisitions of natural gas and oil properties	(3,649,702)	—	—
Deposits and prepayments of natural gas and oil properties	(9,805,460)	—	—
Net cash used in investing activities	(26,408,725)	(37,382,726)	(37,067,797)
Financing activities			
Proceeds from borrowings	126,200,000	21,360,000	30,390,000
Repayment of debt	(182,867,500)	—	—
Proceeds from sale of initial public offering units	89,946,916	—	—
Proceeds from private placement units	41,220,000	—	—
Capital distributions	(46,846,423)	(1,375,104)	(4,819,333)
Financing costs	(1,237,948)	—	—
Net cash provided by financing activities	26,415,045	19,984,896	25,570,667
Net increase (decrease) in cash and cash equivalents	1,378,607	(1,310,512)	(967,287)
Cash and cash equivalents, beginning of year	1,730,956	3,041,468	4,008,755
Cash and cash equivalents, end of year	$ 3,109,563	$ 1,730,956	$ 3,041,468
Supplemental cash flow information:			
Cash paid for interest	$ 8,839,169	$ 7,233,549	$ 5,735,952
Non-cash financing and investing activities:			
Asset retirement obligations	$ 177,153	$ 187,638	$ 69,900
Initial contribution of assets	$ 3,289,055	$ —	$ —

See accompanying notes to consolidated financial statements.

Vanguard Natural Resources, LLC and Subsidiaries
Consolidated Statement of Comprehensive Income
For the Years Ended December 31,

	Vanguard	Vanguard Predecessor	
	2007	**2006**	**2005**
Net income (loss)	$ 2,649,308	$ 26,554,846	$ (10,558,548)
Net losses from cash flow hedging activities:			
Unrealized mark-to-market losses arising during the period	(9,644,224)	—	—
Reclassification of realized losses	(414,724)	—	—
Other comprehensive loss	(10,058,948)	—	—
Comprehensive income (loss)	$ (7,409,640)	$ 26,554,846	$ (10,558,548)

See accompanying notes to consolidated financial statements.

Vanguard Natural Resources, LLC and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2007

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation and Nature of Operations

Vanguard Natural Resources, LLC is a publicly traded limited liability company focused on the acquisition, development and exploitation of mature, long-lived natural gas and oil properties. Through our operating subsidiaries, we own properties in the southern portion of the Appalachian Basin, primarily in southeast Kentucky and northeast Tennessee.

References in this report to (1) "us", "we", "our", "the Company", "Vanguard" or "VNR" are to Vanguard Natural Resources, LLC and its subsidiaries, including Vanguard Natural Gas, LLC ("VNG"), Trust Energy Company, LLC, ("TEC"), VNR Holdings, Inc ("VNRH") and Ariana Energy, LLC, ("Ariana Energy") and (2) "Vanguard Predecessor", "Predecessor", "our operating subsidiary" or "VNG" are to Vanguard Natural Gas, LLC.

We were formed in October 2006 and effective January 5, 2007, Vanguard Natural Gas, LLC (formerly Nami Holding Company, LLC) was separated into our operating subsidiary and Vinland Energy Eastern, LLC ("Vinland"). As part of the separation, we retained all of our Predecessor's proved producing wells and associated reserves. We also retained 40% of our Predecessor's working interest in the known producing horizons in approximately 95,000 gross undeveloped acres and a contract right to receive approximately 99% of the net proceeds from the sale of production from certain producing gas and oil wells. In the separation, Vinland was conveyed the remaining 60% of our Predecessor's working interest in the known producing horizons in this acreage, and 100% of our Predecessor's working interest in depths above and 100 feet below our known producing horizons. Vinland acts as the operator of our existing wells in Appalachia and all of the wells that we drill in this area. We refer to these events as the "Restructuring."

In October 2007, we completed our initial public offering ("IPO") of 5.25 million units representing limited liability interests in VNR at $19.00 per unit for net proceeds of $92.8 million after deducting underwriting discounts and fees of $7.0 million. The proceeds were used to reduce indebtedness under our Credit Facility by $80.0 million and the balance was used for the payment of accrued distributions to pre-IPO unitholders and the payment of a deferred swap obligation.

VNG was formed in Kentucky on December 15, 2004 and its principal business is to hold interests in TEC, VNRH and Ariana Energy. TEC was formed in Kentucky on December 15, 2004. Its principal business consists of natural gas and oil development and exploitation of mature, long-lived natural gas and oil properties in the Appalachian region of eastern Kentucky. VNRH was formed in Delaware on March 28, 2007. Its principal business it to provide general employment related services, including payroll and employment administration, as well as information technology and communication services to VNR. Ariana Energy was formed in Tennessee on April 26, 2002 and its principal business consists of natural gas and oil development and exploitation of mature, long-lived natural gas and oil properties in Tennessee.

The consolidated financial statements as of and for the year ended December 31, 2007 include the accounts of VNG, TEC, VNRH and Ariana Energy. In conjunction with the Restructuring, Nami Resources Company, LLC conveyed its assets to Vinland or TEC as appropriate and is no longer a wholly-owned subsidiary of VNG and therefore is no longer consolidated in these consolidated financial statements. The consolidated financial statements as of December 31, 2006 and for the year ended December 31, 2006 and 2005 are based on the annual audited financial statements of VNG prior to the Restructuring. As such, these periods are labeled Vanguard Predecessor and are separated from VNR financial data by a bold black line.

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles and include the accounts of all subsidiaries after the elimination of all significant intercompany accounts and transactions. Additionally, our financial statements for prior periods include reclassifications that were made to conform to the current period presentation. Those reclassifications did not impact our reported net income or member's equity.

New Accounting Pronouncements Issued But Not Yet Adopted

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 "*Fair Value Measurements*" (SFAS 157). SFAS 157 introduces a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. On February 6, 2008, the FASB issued a final FASB Staff Position (FSP) No. FAS 157-b, "*Effective Date of FASB Statement No. 157*". This FSP delays the effective date of FASB Statement No. 157, *Fair Value Measurements,* for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. In addition, the FSP removes certain leasing transactions from the scope of SFAS 157. The effective date of SFAS 157 for non-financial assets and liabilities has been delayed by one year to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. SFAS 157 for financial assets and liabilities is effective for fiscal years beginning after November 15, 2007, and the Company adopted the standard for those assets and liabilities as of January 1, 2008. The principal impact to the Company will be to require the Company to expand its disclosure regarding its derivative instruments and to include credit risk as a part of the calculation of the fair value of derivatives. The adoption of this standard did not have a material impact on the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*" ("SFAS 159"), which permits companies to choose, at specified dates, to measure certain eligible financial instruments at fair value. The objective of SFAS 159 is to reduce volatility in preparer reporting that may be caused as a result of measuring related financial assets and liabilities differently and to expand the use of fair value measurements. The provisions of SFAS 159 apply only to entities that elect to use the fair value option and to all entities with available-for-sale and trading securities. Additional disclosures are also required for instruments for which the fair value option is elected. SFAS 159 is effective for fiscal years beginning after November 15, 2007. No retrospective application is allowed, except for companies that choose to adopt early. At the effective date, companies may elect the fair value option for eligible items that exist at that date, and the effect of the first remeasurement to fair value must be reported as a cumulative-effect adjustment to the opening balance of retained earnings. Effective January 1, 2008, the Company adopted, SFAS No.159 and the adoption did not have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *"Business Combinations"* ("SFAS 141(R)"), which replaces FASB Statement No. 141. SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisitions that occur in an entity's fiscal year that begins after December 15, 2008, which will be our fiscal year 2009. The impact, if any, will depend on the nature and size of business combinations that we consummate after the effective date.

In December 2007, the FASB issued SFAS No. 160, *"Non-controlling Interests in Consolidated Financial statements—an amendment of ARB No. 51"* ("SFAS 160"). SFAS 160 requires that accounting and reporting for minority interests will be recharacterized as non-controlling interests and classified as a component of equity. SFAS 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective as of the beginning of an entity's first fiscal year beginning after December 15, 2008, which will be our fiscal year 2009. Based upon the December 31, 2007 balance sheet, the statement would have no impact.

In March 2008, the FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities"* (" SFAS No. 161"). SFAS No. 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 No. 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 No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We are evaluating the impact of SFAS No. 161 on our consolidated financial statements and do not expect the impact of implementation to be material.

Cash Equivalents

The Company considers all highly liquid short-term investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are customer obligations due under normal trade terms and are presented on the consolidated balance sheet net of allowances for doubtful accounts. We establish provisions for losses on accounts receivable if we determine that we will not collect all or part of the outstanding balance. We regularly review collectibility and establish or adjust our allowance as necessary using the specific identification method.

Inventory

Materials, supplies and commodity inventories are valued at the lower of cost or market. The cost is determined using the first-in, first-out method.

Property and Equipment

Property and equipment is recorded at cost. Major property additions, replacements and betterments are capitalized, while maintenance and repairs that do not extend the useful life of an asset are expensed as incurred. Depreciation is recorded using the straight-line method over the respective estimated useful lives of our assets.

The estimated useful lives of our property and equipment are as follows:

	Lives (Years)
Furniture and fixtures	3-5
Machinery and equipment	7

Depreciation expense for the year ended December 31, 2007 was $36,539. Our Predecessor's consolidated statement of operations included depreciation expense in the amount of $693,266, and $485,121 at December 31, 2006 and 2005, respectively.

Natural Gas and Oil Properties

The full cost method of accounting is used to account for natural gas and oil properties. Under the full cost method, substantially all costs incurred in connection with the acquisition, development and exploration of natural gas and oil reserves are capitalized. These capitalized amounts include the costs of unproved properties, internal costs directly related to acquisitions, development and exploration activities, asset retirement costs and capitalized interest. Under the full cost method, both dry hole costs and geological and geophysical costs are capitalized into the full cost pool, which is subject to amortization and subject to ceiling test limitations as discussed below.

Capitalized costs associated with proved reserves are amortized over the life of the reserves using the unit of production method. Conversely, capitalized costs associated with unproved properties are excluded from the amortizable base until these properties are evaluated, which occurs on a quarterly basis. Specifically, costs are transferred to the amortizable base when properties are determined to have proved reserves. In addition, we transfer unproved property costs to the amortizable base when unproved properties are evaluated as being impaired and as exploratory wells are determined to be unsuccessful. Additionally, the amortizable base includes estimated future development costs, dismantlement, restoration and abandonment costs net of estimated salvage values, and geological and geophysical costs incurred that cannot be associated with unevaluated properties or prospects in which we own a direct interest.

Capitalized costs are limited to a ceiling based on the present value of future net revenues using end of period spot prices discounted at 10%, plus the lower of cost or fair market value of unproved properties. If the ceiling is not greater than or equal to the total capitalized costs, we are required to write-down capitalized costs to the ceiling. We perform this ceiling test calculation each quarter. Any required write-downs are included in the consolidated statement of operations as a ceiling test charge. Ceiling test calculations include the effects of derivative contracts. Ceiling test calculations exclude the estimated future cash outflows associated with asset retirement obligations related to proved developed reserves.

When we sell or convey interests in natural gas and oil properties, they reduce natural gas and oil reserves for the amount attributable to the sold or conveyed interest. We do not recognize a gain or loss on sales of natural gas and oil properties, unless those sales would significantly alter the relationship between capitalized costs and proved reserves. Sales proceeds on insignificant sales are treated as an adjustment to the cost of the properties.

Asset Retirement Obligations

Under SFAS No. 143*, Accounting for Asset Retirement Obligations,* we record a liability for asset retirement obligations at fair value in the period in which the liability is incurred if a reasonable estimate of fair value can be made. The associated asset retirement cost is capitalized as part of the carrying amount of the long-lived asset. Subsequently, the asset retirement cost is allocated to expense using a systematic and rational method over the assets useful life. Our recognized asset retirement obligation exclusively relates to the plugging and abandonment of natural gas and oil wells. Management periodically reviews the estimate of the timing of well abandonments as well as the estimated plugging and abandonment costs, which are discounted at the credit adjusted risk free rate. These retirement costs are recorded as a long-term liability on the consolidated balance sheet with an offsetting increase in natural gas and oil properties. An ongoing accretion expense is recognized for changes in the value of the liability as a result of the passage of time, which we record in depreciation, depletion and amortization expense in the consolidated statement of operations.

Impairment of Long-Lived Assets

We evaluate the carrying value of long-lived assets, other than investments in natural gas and oil properties, when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. For property and equipment used in operations, the determination of impairment is based upon expectations of undiscounted future cash flows, before interest, of the related asset. If the carrying value of the asset exceeds the undiscounted future cash flows, the impairment would be computed as the difference between the carrying value of the asset and the fair value.

Revenue Recognition and Gas Imbalances

We apply the sales method of accounting for natural gas and oil revenue. Under this method, revenues are recognized based on the actual volume of natural gas and oil sold to customers, net of any royalty interests owed on the sold product. In the movement of natural gas, it is common for differences to arise between the volume of gas contracted or nominated, and the volume of gas actually received or delivered. These variances or imbalances, are the result of certain attributes of the natural gas commodity and the industry itself. Consequently, the credit given by a pipeline for volumes received from producers may be different than volumes actually delivered by a pipeline. When all necessary information, such as the final pipeline statement for receipts and deliveries are available, the imbalances are resolved and adjustments to the trade accounts receivable or trade accounts payable is recorded as appropriate. The amount of imbalances were not material at December 31, 2007 and 2006.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable and derivative contracts. We control our exposure to credit risk associated with these instruments by (i) placing our assets and other financial interests with credit-worthy financial institutions and (ii) maintaining policies over credit extension that include the evaluation of customers' financial condition and monitoring payment history, although we do not have collateral requirements.

At December 31, 2007 and 2006, the cash and cash equivalents are concentrated in two financial institutions. We periodically assess the financial condition of these institutions and believe that any possible credit risk is minimal. At December 31, 2007 and 2006, seven and six customers comprised 87% and 90% of our total trade accounts receivable, respectively. This concentration of customers may impact the overall exposure to credit risk in that the customers are in the energy industry and they may be similarly affected by changes in economic or other conditions. In addition, receivables due from affiliates represented 66% of total current assets at December 31, 2006. All of the related party balances at December 31, 2006, were conveyed to other entities pursuant to the Restructuring and therefore no receivable balances were outstanding from these affiliates at December 31, 2007.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the Unites States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to proved natural gas and oil reserves and related cash flow estimates used in impairment tests of natural gas and oil properties, the fair value of derivative contracts and asset retirement obligations, natural gas and oil revenues and expenses, as well as estimates of expenses related to depreciation, depletion and amortization. Actual results could differ from those estimates.

Price Risk Management Activities

From time to time, the Company enters into derivative contracts, such as natural gas and oil swaps, collars and put option contracts, as a hedging strategy to manage commodity price risk associated with its production. Gains and losses on these hedging activities are generally recognized over the period that its production is hedged as an offset to the specific hedged item. Cash flows related to any recognized gains and losses associated with these hedges are reported as cash flows from operations. Changes in derivative fair values that are designated as hedges are deferred in other comprehensive income (loss) to the extent that they are effective and then recognized in operating revenues when the hedged transactions occur. The ineffective portion of a hedge's change in value and the change in value of all derivative contracts not designated as hedges is recognized immediately in earnings as a separate line item in our consolidated statement of operations.

We record all derivative contracts on the consolidated balance sheet at fair value as either short-term or long-term assets or liabilities based upon their anticipated settlement date. We net derivative assets and liabilities for counterparties where we have a legal right of offset. The derivative contracts entered into in 2006 and 2005 were not specifically designated as hedges under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and therefore did not qualify for hedge accounting treatment. The change in fair value of these derivative contracts is recorded in the consolidated statement of operations.

Income Taxes

The Company is treated as a partnership for federal and state income tax purposes. As such, it is not a taxable entity and does not directly pay federal and state income tax. Its taxable income or loss, which may vary substantially from the net income or net loss reported in the consolidated statement of operations , is included in the federal and state income tax returns of each unitholder. Accordingly, no recognition has been given to federal and state income taxes for the operations of the Company. The aggregate difference in the basis of net assets for financial and tax reporting purposes cannot be readily determined as the Company does not have access to information about each unitholders' tax attributes in the Company.

2. Accounts Receivable and Allowance for Doubtful Accounts

We established an approximate $1.0 million provision for a loss on the entire amount due from a customer which filed for protection under Chapter 11 of the Bankruptcy Code in May 2007. The account receivable was due from oil sales through December 2006 at which time we ceased selling oil to the customer. As the amount of any potential recovery is uncertain, we elected to reserve the entire balance and it is reflected as bad debt expense on our consolidated statement of operations for the year ended December 31, 2007. We began selling our oil production to a new customer beginning in March 2007. There are no allowances for doubtful accounts recorded against accounts receivable at December 31, 2006.

3. Other Receivables

From time to time, our Predecessor advanced funds to third parties, primarily for the purpose of providing financing related to the purchase of drilling rigs or other related equipment. Amounts due from such parties amounted to $234,456 at December 31, 2006. These receivables were non-interest bearing and due on demand. All other receivable balances at December 31, 2006, were conveyed to other entities pursuant to the Restructuring and therefore no other receivable balances were outstanding at December 31, 2007.

Vanguard Natural Resources, LLC and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2007

4. Natural Gas and Oil Properties

Natural gas and oil properties are comprised of the following:

December 31,	Vanguard 2007	Vanguard Predecessor 2006
Natural gas and oil properties, at cost	$ 135,435,240	$ 128,811,908
Accumulated depletion	(28,451,891)	(24,128,298)
Natural gas and oil properties, net	$ 106,983,349	$ 104,683,610

5. Credit Facilities and Long-Term Debt

Our credit facilities and long-term debt consisted of the following at December 31,:

Description	Interest Rate	Maturity Date	Vanguard 2007	Vanguard Predecessor 2006
$ 75 million Senior Secured Revolver	Variable	January 31, 2007	$ —	$ 63,067,500
$ 40 million TCW Senior Secured Notes	13%	December 29, 2011	—	31,000,000
$ 200 million Senior Secured Revolver	Variable	January 3, 2011	37,400,000	—
Total			$ 37,400,000	$ 94,067,500

$75 million Senior Secured Revolver

On June 30, 2003, we entered into a $75.0 million senior secured revolving credit facility with the Bank of Texas ("Senior Revolver") which amended and restated in its entirety a loan agreement dated March 23, 2001. The Senior Revolver had an original maturity date of June 30, 2006 but was extended through amendments to January 31, 2007. The available credit line ("Borrowing Base") was subject to adjustment from time to time but not less than on a semi-annual basis based on the projected discounted present value (as determined by independent petroleum engineers) of estimated future net cash flows from certain proved natural gas and oil reserves of the Company. At December 31, 2006, the Borrowing Base was $65.0 million. The Senior Revolver was secured by a mortgage lien on certain natural gas and oil properties, field equipment and accounts receivable, among other assets held by the Company. Interest rates under this credit facility were at the election of the Company based on Euro-Dollars (LIBOR) or Stated Rate (Prime) indications, plus a margin. The margin could range from Prime minus 0.25% to Prime plus 0.25% or LIBOR plus 1.875% to LIBOR plus 2.625% depending on borrowing base utilization. At December 31, 2006, our interest rate was 8.5%. The availability of borrowings was subject to various conditions, which included compliance with the financial covenants and ratios required by the facility, absence of default under the facility and the continued accuracy of the representations and warranties contained in the facility. At December 31, 2006, the financial coverage ratios under the facility required that our debt to EBITDA (as defined in the loan agreement) ratio not exceed 4.0 to 1.0 and our current ratio (as defined in the loan agreement) not be less than 1.0 to 1.0. In addition, affiliate investments (as defined in the loan agreement) could not exceed $10.0 million.

Since the inception of the Senior Revolver, seven amendments were entered into which amended certain terms of the loan agreement including increasing the number of participating lenders, changing the maximum borrowing base, extending the maturity date, reducing the interest costs, adding a new financial covenant and adding new reporting requirements. In addition, on December 30, 2004, our second amendment reduced the amount of natural gas and oil properties pledged under the Senior Revolver. Certain pledged natural gas and oil properties were released so that they could be pledged under a new $40.0 million note facility as described below. As consideration for releasing the pledged properties, indebtedness under the Senior Revolver was reduced by $16.0 million using proceeds from the new note facility.

On January 3, 2007, all amounts due under the Senior Revolver were repaid and a new long-term credit facility was established as discussed below, and therefore, amounts due under the Senior Revolver are reported on the balance sheet as a long-term obligation despite the maturity date falling within one year of December 31, 2006.

$40 million TCW Senior Secured Notes

On December 30, 2004, we entered into a $40.0 million Senior Secured Notes facility due to TCW Asset Management Company (the "TCW Notes"). The TCW Notes original maturity was on December 29, 2011 and required quarterly interest payments at 13% per annum. The TCW Notes were secured by a mortgage lien on certain natural gas and oil properties. Prior to December 30, 2006, the availability of borrowings was subject to various conditions, which included compliance with the financial covenants and ratios required by the facility, absence of default under the facility and the continued accuracy of the representations and warranties contained in the facility. After December 30, 2006, no new borrowings were available. At December 31, 2006, the financial coverage ratios under the facility required that our collateral coverage ratio (as defined in the loan agreement) not be less than 1.2 to 1.0 and our current ratio (as

defined in the loan agreement) not be less than 1.0 to 1.0. We could not borrow, repay, and reborrow under the facility. Optional prepayments were not permitted prior to December 31, 2006 and were subject to a range of penalties thereafter until December 31, 2008 at which point no prepayment penalties applied.

On January 3, 2007, all amounts due under the TCW Notes were repaid and a new credit facility was established as discussed below. We recorded a $2.5 million loss on the extinguishment of this debt as the loan agreement required an early prepayment penalty.

New $200 Million Senior Secured Revolver

In January 2007, we entered into a new four-year $200.0 million revolving credit facility ("Credit Facility") with two banks. All outstanding debt under the TCW Notes (including an early payment penalty of $2.5 million) and the Senior Revolver were repaid with borrowings under the new Credit Facility. The available credit line ("Borrowing Base") is subject to adjustment from time to time but not less than on a semi-annual basis based on the projected discounted present value (as determined by independent petroleum engineers) of estimated future net cash flows from certain proved natural gas and oil reserves. The initial Borrowing Base was set at $115.5 million and is secured by a first lien security interest in all of our natural gas and oil properties. However, the borrowing base was subject to a $1.0 million reduction per month starting on July 1, 2007 through November 1, 2007. In November 2007, with the sixth amendment to the Credit Facility, our borrowing base under our Credit Facility was set at $110.5 million pursuant to our semi-annual redetermination.

Interest rates under the Credit Facility are based on Euro-Dollars (LIBOR) or ABR (Prime) indications, plus a margin. The applicable margin and other fees increase as the utilization of the borrowing base increases. Pursuant to the sixth amendment to the Credit Facility, the applicable margins on our borrowing base utilization grid were lowered to reflect the following:

Borrowing Base Utilization Grid

Borrowing Base Utilization Percentage	***<25%***	***>25% <50%***	***>50% <75%***	***>75%***
Eurodollar Loans	1.000%	1.250%	1.500%	1.750%
ABR Loans	0.000%	0.250%	0.500%	0.750%
Commitment Fee Rate	0.250%	0.300%	0.375%	0.375%
Letter of Credit Fee	1.000%	1.250%	1.500%	1.750%

The Credit Agreement contains a number of customary covenants that require us to maintain certain financial ratios, limit our ability to incur additional debt, sell assets, create liens, or make certain distributions. At December 31, 2007, we were in compliance with our debt covenants. In addition, after consideration of the third amendment to the Credit Facility described below, the first $100.0 million of proceeds received from an equity infusion were to be applied to the repayment of borrowings under the Credit Facility ("Equity Event"). Pursuant to the fifth amendment, the amount of proceeds from the equity event that was to be applied to the repayment of borrowings under the Credit Facility was reduced from $100.0 million to $80.0 million. Since borrowings under the Credit Facility were not reduced by $100.0 million by July 1, 2007, the applicable margin increased as follows:

Eurodollar Loans	3.00%
ABR Loans	4.00%
Commitment Fee Rate	0.50%
Letter of Credit Fee	3.00%

The Credit Agreement required us to enter into a commodity price hedge position establishing certain minimum fixed prices for anticipated future production equal to approximately 84% of the projected production from proved developed producing reserves from the second half of 2007 through 2011. Also, the Credit Agreement required that certain production put option contracts for the years 2007, 2008 and 2009 be put in place to create a price floor for anticipated production from new wells drilled. See *Note 6. Financial Instruments and Price Risk Management Activities* for further discussion.

In March 2007, the first amendment to the Credit Facility was executed. The amendment redefined the method to calculate a financial covenant to include the impact of acquisitions and divestitures. In addition, it clarified that the increase in the applicable margin, which commenced on July 1, 2007, will continue only until the Equity Event occurs.

In April 2007, the second amendment to the Credit Facility was executed. The amendment redefined change of control to allow for the sale of common units to private investors more fully described below in *Note 10. Common Units and Net Income per Unit* , recognized certain contract rights to receive approximately 99% of the net proceeds (after deducting royalties paid to other parties, severance taxes, third-party transportation costs, costs incurred in the operation of the wells and overhead costs) from the sale of production from certain producing gas and oil wells located within the Asher lease.

In May 2007, the third amendment to the Credit Facility was executed. The amendment increased the amount of proceeds from an equity infusion that must be applied to the repayment of borrowings under the Credit Facility from $80.0 million to $100.0 million. A new Minimum Liquidity covenant was added which requires us to maintain unencumbered liquid assets of at least $2.0 million which includes unused availability under the borrowing base. Also, the amount of other debt we can incur was temporarily increased from $1.0 million to $7.5 million which allowed us to incur the debt necessary to reset our 2007, 2008 and 2009 natural gas swaps at higher prices more fully described in *Note 6. Financial Instruments and Price Risk Management Activities* . The other debt was required to be repaid at the earlier of five business days after closing of a public offering of equity securities or September 3, 2007. This date was extended to November 1, 2007 as discussed below.

In July 2007, a new borrowing base notice was received pursuant to our Credit Facility agreement which reaffirmed our $115.5 million borrowing base but required $1.0 million monthly reductions beginning on July 1, 2007 through the next redetermination date, which was October 1, 2007, at which time a new redetermination would be made. The October 1, 2007 redetermination date was subsequently moved to November 1, 2007 pursuant to the fifth amendment to the Credit Facility .

In August 2007, the fourth amendment to the Credit Facility was executed. The amendment extended the date for which other debt outside the Credit Facility must be reduced below $1.0 million from September 3, 2007 to October 8, 2007. The October 8, 2007 date was subsequently moved to November 1, 2007 pursuant to the fifth amendment to the Credit Facility .

In October 2007, the fifth amendment to the Credit Facility was executed. There were five items addressed in this amendment. First, the borrowing base redetermination date was adjusted from October 1, 2007 to November 1, 2007 for purposes of this one redetermination. Second, the date at which our other debt outside of the Credit Facility must be reduced to under $1.0 million was extended from October 8, 2007 to November 1, 2007. Third, the amount of proceeds from an equity infusion that must be applied to the repayment of borrowings under the Credit Facility was reduced from $100.0 million to $80.0 million and the outstanding borrowings under the Credit Facility must be reduced to less that 50% of our then-specified borrowing base after any equity infusion before making any subsequent distributions. Fourth, the covenant which prohibited us from making distributions if our borrowings exceeded 50% of our borrowing base was revised to allow us to make distributions if our borrowings were less than 80% of our borrowing base. Fifth, the amendment allowed us to borrow under the Credit Facility to make distributions as long as there has not been a default or event of default under the Credit facility and any such distributions for any quarter do not exceed EBITDA (as defined in the Credit Facility) for such quarter.

In November 2007, a sixth amendment to the Credit Facility was executed which set our borrowing base under our Credit Facility at $110.5 million pursuant to our semi-annual redetermination, revised the covenant governing borrowing funds to make distributions, and lowered our borrowing rates. The covenant which prohibited us from making distributions if our borrowings exceeded 80% of our borrowing base was revised to allow us to make distributions if our borrowings were less than 90% of our borrowing base. In addition, the applicable margins on our borrowing base utilization grid were lowered as referenced above.

Our Credit Facility was amended and restated in February 2008 and additional borrowings were made pursuant to the acquisition of natural gas and oil properties in the Permian Basin. See *Note 12. Subsequent Events* for further discussion.

6. Financial Instruments and Price Risk Management Activities

The following table presents the carrying amounts and estimated fair values of our financial instruments as of December 31:

	Vanguard		Vanguard Predecessor	
	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
$75 million Senior Secured Revolver	$ —	$ —	$ 63,067,500	$ 63,067,500
TCW Notes	$ —	$ —	$ 31,000,000	$ 31,000,000
$200 million Senior Secured Revolver	$ 37,400,000	$ 37,400,000	$ —	$ —
Net liabilities from price risk management activities	$ 556,788	$ 556,788	$ 2,022,079	$ 2,022,079

At December 31, 2007 and 2006, the carrying amounts reported on the consolidated balance sheet for cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. The estimated fair value of financial instruments is the amount at which the instrument could be exchanged currently between willing parties. We use available marketing data and valuation methodologies to estimate the fair value of debt. This disclosure is presented in accordance with SFAS No. 107, *Disclosure about Fair Value of Financial Instruments* and does not impact our financial position, results of operations or cash flows. The Senior Revolver credit facilities approximate fair value because these instrument bear interest at current market rates.

From time to time, we enter into natural gas swap agreements with counterparties to hedge price risk associated with a portion of our production. These derivatives are not held for trading purposes. Under these price swaps, we receive a fixed price on a notional quantity of natural gas in exchange for paying a variable price based on a market index, such as the Columbia Gas Appalachian Index (“TECO Index”) natural gas futures.

During 2006, natural gas swaps covered 2,673,000 MMBtu, fixing the sales price of this natural gas at an average of $6.29 per MMBtu. The derivative contracts entered into in 2006 were not specifically designated as hedges under SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities* and therefore did not qualify for hedge accounting treatment. These derivative contracts are recorded at fair value on the consolidated balance sheet as short-term and long-term liabilities based upon their anticipated settlement date. The change in fair value of these derivative contracts was recorded in the consolidated statement of operations.

On January 3, 2007, the natural gas price swaps referred to above were terminated which resulted in the Company incurring swap termination fees of $2.8 million. New natural gas swaps and option derivative contracts were put in place in conjunction with entering into a new credit facility as described in *Note 5. Credit Facilities and Long-Term Debt* . At our election, in January 2007 we entered into a NYMEX natural gas collar contract. A summary of the derivative contracts entered into in January 2007 is as follows:

Swap Agreements

Contract Period	Volume in MMBtu	Weighted Average TECO Index Fixed Price
July – December 2007	1,708,357	$ 7.50
2008	3,016,134	$ 8.14
2009	2,657,046	$ 7.87
2010	2,387,640	$ 7.53
2011	2,196,012	$ 7.15

Put Option Contracts

Contract Period	Volume in MMBtu	Purchased NYMEX Price Floor
February – December 2007	1,356,480	$ 7.50
2008	2,211,366	$ 7.50
2009	1,840,139	$ 7.50

Collar Contracts

Contract Period	Volume in MMBtu	NYMEX Price Floor	NYMEX Price Ceiling
February – June 2007	1,500,000	$ 6.45	$ 7.45

January 2007, the Company paid $6.5 million for the put option contracts referenced above. Payments for the put option contracts and the swap termination fee were funded with borrowings under the Credit Facility.

In May 2007, we reset our 2007, 2008 and 2009 natural gas swaps at higher prices as follows:

Contract Period	Volume in MMBtu	Original Weighted Average TECO Index Fixed Price	New Weighted Average TECO Index Fixed Price
July – December 2007	1,708,357	$ 7.50	$ 9.00
2008	3,016,134	$ 8.14	$ 9.00
2009	2,657,046	$ 7.87	$ 8.85

In connection with resetting our swaps as described above in May 2007, we incurred a $7.3 million deferred swap payment obligation with the derivative counterparty which accrued interest daily at 7.36% and was payable at the earlier of five days after the closing of an equity issuance or November 1, 2007. The deferred swap obligation was paid in October 2007 using proceeds from our IPO.

The derivative contracts entered into in January 2007, and reset in May 2007, were specifically designated as hedges under SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities* and therefore qualify for hedge accounting treatment. These derivative contracts are recorded at fair value on the consolidated balance sheet as short-term and long-term assets and liabilities based upon their anticipated settlement date. The change in fair value of these derivative contracts is recorded in other comprehensive income.

At December 31, 2007, the Company had open natural gas derivative contracts covering its production as follows:

Swap Agreements

Contract Period	Volume in MMBtu	Weighted Average TECO Index Fixed Price
2008	3,016,134	$ 9.00
2009	2,657,046	$ 8.85
2010	2,387,640	$ 7.53
2011	2,196,012	$ 7.15

Put Option Contracts

Contract Period	Volume in MMBtu	Purchased NYMEX Price Floor
2008	2,211,366	$ 7.50
2009	1,840,139	$ 7.50

In addition, in December 2007, we entered into an interest rate swap agreement which fixed LIBOR at 3.875% on $20.0 million of borrowings for the period from December 2007 to December 2010 to minimize the effect of fluctuating interest rates. If LIBOR is lower than the fixed rate in the contract, we are required to pay the counterparty the difference, and conversely, the counterparty is required to pay us if LIBOR is higher than the fixed interest rate in the contract. We designated the interest rate swap as a cash flow hedge under SFAS 133; therefore, the change in fair value of this instrument is recorded in other comprehensive income (loss).

In February 2008, in connection with our recent acquisition of certain oil and gas properties in the Permian Basin of West Texas and Southeastern New Mexico, we assumed fixed-price oil swaps for approximately 90% of the estimated 2008 through 2011 oil production which effectively fixes the sales price on that portion of the production at a weighted average price of $87.29 per barrel. Also, in February 2008, we entered into natural gas collars for 2,730,000 MMBtu for gas production in 2008 through 2010, reset the price on 2,387,640 MMBtu of natural gas swaps settling in 2010 from $7.53 to $8.76 per MMBtu and entered into a 2012 fixed-price oil swap at $80.00 for 87% of the estimated proved developed producing reserves. In February and March 2008, we entered into additional interest rates swaps on $40.0 million of borrowings which settle in January 2008 through 2011. See *Note 12. Subsequent Events* for further discussion.

7. Asset Retirement Obligations

The asset retirement obligations as of December 31 reported on our consolidated balance sheet and the changes in the asset retirement obligations for the year ended December 31, were as follows:

	Vanguard	Vanguard Predecessor
	2007	2006
Asset retirement obligation at January 1,	$ —	$ 212,588
Liabilities added during the current period	177,153	50,496
Accretion expense	12,558	18,307
Revisions to estimated cash flows	—	137,142
Asset retirement obligation at December 31,	$ 189,711	$ 418,533

Accretion expense for the years ended December 31, 2007, 2006 and 2005 was $12,558, $18,307 and $12,533, respectively.

8. Related Party Transactions

At December 31, 2007 and 2006, amounts payable to our largest unitholder were none and $75,000, respectively. Historically, our Predecessor maintained relationships with several closely related companies that directly supported it through administrative and operational services. The total cost for services performed by these affiliates was none and $1.3 million for the year ended December 31, 2007 and 2006, respectively. Our Predecessor also historically funded certain capital requirements of its affiliates. As of December 31, 2006, receivables due from these affiliates were $14.7 million. These companies are affiliated through common ownership with our largest unitholder. All of the related party balances at December 31, 2006, were conveyed to other entities pursuant to the Restructuring and therefore no receivable balances were outstanding from these affiliates at December 31, 2007. In addition, as of the Restructuring no additional funding of these related parties has occurred.

Pursuant to the Restructuring, we rely on Vinland to execute our drilling program, operate our wells and gather our natural gas in Appalachia. We reimburse Vinland $60 per well per month (in addition to normal third party operating costs) for operating our current natural gas and oil properties in Appalachia under a Management Services Agreement ("MSA") which costs are reflected in our lease operating expenses. Also, Vinland receives a $0.25 per mcf transportation fee for producing wells as of January 5, 2007 and $0.55 per mcf transportation fee on any new wells drilled after January 5, 2007 within the area of mutual interest. This transportation fee only encompasses transporting the natural gas to third party pipelines at which point additional transportation fees to natural gas markets apply. These transportation fees are outlined under a Gathering and Compression Agreement ("GCA") with Vinland and are reflected in our lease operating expenses. For the year ended December 31, 2007, costs incurred under the MSA were $0.5 million and costs incurred under the GCA were $1.2 million. In addition, Vinland reimburses us for certain gas sales contracts that were fixed at prices below market. For the year ended December 31, 2007, Vinland's reimbursement of $1.0 million is reflected in natural gas and oil sales. A net payable of $3.8 million is reflected on our December 31, 2007 consolidated balance sheet in connection with these agreements and direct expenses incurred by Vinland related to the drilling of new wells and operations of all of our existing wells in Appalachia.

9. Commitments and Contingencies

The Company is a defendant in a legal proceedings arising in the normal course of our business. While the outcome and impact of such legal proceedings on the Company cannot be predicted with certainty, management does not believe that it is probable that the outcome of any action will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flow.

10. Common Units and Net Income per Unit

In April 2007, the sole member of VNG contributed all of the issued and outstanding common units in VNG to VNR for six million common units representing all of the issued and outstanding common units of VNR at such time. VNR then completed a private equity offering pursuant to which it sold 2.29 million common units to certain private investors for $41.2 million.

The proceeds of this private equity offering were used to make a distribution to Majeed S. Nami, VNR's largest unitholder. Mr. Nami used a portion of these funds to capitalize Vinland and Vinland paid us $3.9 million to reduce outstanding accounts receivable from Vinland. In October 2007, we successfully completed our IPO of 5.25 million common units.

Basic earnings per unit is computed in accordance with SFAS No. 128, *"Earnings Per Share"* ("SFAS 128") by dividing net earnings attributable to unitholders by the weighted average number of units outstanding during the period. Diluted earnings per unit is computed by adjusting the average number of units outstanding for the dilutive effect, if any, of unit equivalents. The Company uses the treasury stock method to determine the dilutive effect. At December 31, 2007, the Company had two classes of units outstanding: (i) units representing limited liability company interests ("common units") listed on NYSE Arca, Inc. under the symbol VNR and (ii) Class B units, issued to management and an employee as discussed in *Note 11.Unit-Based Compensation* . The Class B units participate in distributions and no forfeiture is expected; therefore, all Class B units were considered in the computation of basic earnings per unit.

In accordance with SFAS 128, dual presentation of basic and diluted earnings per unit has been presented in the consolidated statements of operations for the year ended December 31, 2007 for each class of units issued and outstanding at that date, common units and Class B units. Net income per unit was allocated to the units and the Class B units on an equal basis. No calculation was made for the Vanguard Predecessor period.

11. Unit-Based Compensation

In April 2007, the sole member reserved 460,000 restricted Class B units in VNR for issuance to employees of VNRH. Certain members of management were granted 365,000 restricted Class B units in VNR in April 2007, which vest two years from the date of grant. In addition, another 55,000 restricted VNR Class B units were issued in August 2007 to two other employees that were hired in April and May, 2007, which will vest over three years. The remaining 40,000 restricted Class B units will be awarded to new employees or members of our board of directors as they are retained. In October 2007, a board member was granted 5,000 common units which vest over one year. These common units and Class B units were granted as partial consideration for services to be performed under employment contracts and thus will be subject to accounting for these grants under SFAS No. 123(R), *Share-Based Payment.*

The fair value of restricted units issued is determined based on the fair market value of VNR units on the date of the grant. This value is amortized over the vesting period as referenced above. A summary of the status of the non-vested units as of December 31, 2007 is presented below:

	Number of Non-vested Units	Weighted Average Grant Date Fair Value
Non-vested units at December 31, 2006	—	$ —
Granted	425,000	18.14
Non-vested units at December 31, 2007	425,000	$ 18.14

At December 31, 2007, there was approximately $5.6 million of unrecognized compensation cost related to non-vested restricted units. The cost is expected to be recognized over an average period of approximately 1.8 years. Our consolidated statement of operations reflects non-cash compensation of $2.1 million in the selling, general and administrative line item for the year ended December 31, 2007.

12. Subsequent Events

In January 2008, we completed the acquisition of certain oil and gas properties in the Permian Basin of West Texas and Southeastern New Mexico for an adjusted purchase price of $73.4 million, subject to customary post-closing adjustments. The effective date of the acquisition was October 1, 2007. The purchase price includes a payment of $7.8 million paid by us to the seller in December 2007. At December 31, 2007, this amount is reported in non-current deposits in our consolidated balance sheet. In this acquisition, based on internal reserve forecasts, we acquired approximately 4.4 million barrels of oil equivalent, 83% of which are oil and 90% are proved developed producing. The current net production attributable to this purchase is estimated to be approximately 800 barrels of oil equivalent per day and the reserves-to-production ratio is 15 years.

As part of this acquisition, in February 2008, we have assumed fixed-price oil swaps covering approximately 90% of the estimated proved developed producing oil reserves through 2011 at a weighted average price of $87.29. This acquisition was funded with borrowings under our existing Credit Facility and after consideration of this acquisition and other borrowings, indebtedness under the Credit Facility totaled $103.0 million. In conjunction with these new borrowings, in February and March 2008, we entered into interest rate swaps which effectively fix the LIBOR rate at 2.66% to 3.00% on $40.0 million of borrowings. Also, in February 2008, we entered into natural gas collars for 2,730,000 MMBtu for gas production in 2008 through 2010, reset the price on 2,387,640 MMBtu of natural gas swaps settling in 2010 from $7.53 to $8.76 per MMBtu and entered into a 2012 fixed-price oil swap at $80.00 for 87% of the estimated proved developed producing reserves.

The following summarizes information concerning our net positions in open commodity derivatives entered into subsequent to December 31, 2007. The settlement prices of commodity derivatives are based on NYMEX futures prices for collars and put options and are based on the TECO Index for swaps.

Collars

	Gas		
	MMBtu (a)	**Floor**	**Ceiling**
Production Period:			
March – September 2008	700,000	$ 7.50	$ 9.00
October – December 2008	300,000	$ 7.50	$ 9.25
January 2009 – December 2009	1,000,000	$ 7.50	$ 9.00
January 2010 – December 2010	730,000	$ 8.00	$ 9.30

(a) One MMBtu equals one Mcf at a Btu factor of 1,000.

Swaps

	Oil	
	Bbls	**Price**
Production Period:		
2008	182,500	$ 90.30
2009	181,500	$ 87.23
2010	164,250	$ 85.65
2011	151,250	$ 85.50
2012	144,000	$ 80.00

Interest Rates

The following summarizes information concerning our positions in open interest rate swaps entered into subsequent to December 31, 2007.

	Principal Balance	**Fixed Libor Rates**
Period:		
January 31, 2008 to January 31, 2011	$ 30,000,000	3.00%
March 31, 2008 through March 31, 2011	$ 10,000,000	2.66%

We designated all of the derivatives shown in the preceding tables as cash flow hedges under SFAS 133; therefore, all changes in the fair value of these contracts prior to maturity are not shown on the statement of operations but rather are shown in other comprehensive income (loss). Any realized gains or losses including premiums paid for the derivative will be reflected as realized gains (losses) on derivative contracts in the consolidated statement of operations at the time of maturity.

Our Credit Facility was amended and restated in February 2008 to extend the maturity date from January 3, 2011 to March 31, 2011, increase the facility amount from $200.0 million to $400.0 million, increase our borrowing base from $110.5 million to $150.0 million and add two financial institutions.

13. Restatement

The accompanying consolidated financial statements for the year ended December 31, 2007 have been restated as described below.

Recalculation of weighted average units outstanding and earnings per unit .

The Company by error calculated the earnings per unit for the year ended December 31, 2007 using the common units outstanding as of that date instead of the weighted average units for the year. The Company has restated the weighted average Common and Class B units outstanding and earnings per unit. In addition, in the unaudited Supplemental Selected Quarterly Financial Information, we have corrected a rounding error in the "Quarter Ended December 31" basic and diluted Net income (loss) per Common & Class B unit.

Changes to earnings per unit are summarized in the table below:

	Year Ended December 31, 2007
Net income	$ 2,649,308
AS ORIGINALLY REPORTED:	
Weighted average units Common units —basic and diluted	10,795,000
Weighted average units Class B units —basic and diluted	276,795
Basic and diluted earnings per unit	$ 0.24
AS RESTATED:	
Weighted average units Common units—basic and diluted	6,533,411
Weighted average units Class B units—basic and diluted	278,945
Basic and diluted earnings per unit	$ 0.39

Changes to Supplemental Selected Quarterly Financial Information are summarized in the table below:

	Quarters Ended				
	March 31	June 30	September 30	December 31	Total
2007 AS ORIGINALLY REPORTED					
Net income (loss) per unit:					
Common & Class B units – basic	$ (0.29)	$ 0.38	$ 0.18	$ 0.09	$ 0.24
Common & Class B units – diluted	$ (0.29)	$ 0.38	$ 0.18	$ 0.09	$ 0.24
2007 AS RESTATED					
Net income (loss) per unit:					
Common & Class B units – basic	$ (0.29)	$ 0.38	$ 0.18	$ 0.10	$ 0.39
Common & Class B units – diluted	$ (0.29)	$ 0.38	$ 0.18	$ 0.10	$ 0.39

Supplemental Selected Quarterly Financial Information (Unaudited)

Financial information by quarter is summarized below.

	Quarters Ended				
	March 31	June 30	September 30	December 31	Total
	(in thousands, except per unit amounts)				
2007					
Natural gas and oil sales	$ 8,962	$ 10,107	$ 7,641	$ 7,831	$ 34,541
Realized gain (losses) on derivative contracts	(748)	(918)	940	24	(702)
Total Revenues	8,214	9,189	8,581	7,855	33,839
Total costs and expenses(1)	5,128	4,767	5,026	5,694	20,615
Net income (loss)	$ (1,626)	$ 2,240	$ 1,051	$ 984	$ 2,649
Net income (loss) per unit:					
Common & Class B units – basic	$ (0.29)	$ 0.38	$ 0.18	$ 0.10	$ 0.39
Common & Class B units – diluted	$ (0.29)	$ 0.38	$ 0.18	$ 0.10	$ 0.39
2006(2)					
Natural gas and oil sales	$ 11,163	$ 8,253	$ 9,574	$ 9,859	$ 38,849
Realized gain (losses) on derivative contracts	(2,020)	(322)	(161)	295	(2,208)
Change in fair value of derivative contracts	8,814	2,610	4,428	1,896	17,748
Total Revenues	17,957	10,541	13,841	12,050	54,389
Total costs and expenses(1)	4,452	3,580	4,162	8,308	20,502
Net income (loss)	$ 11,702	$ 4,998	$ 7,666	$ 2,189	$ 26,555

(1) Includes lease operating expenses, depreciation, depletion and amortization, selling, general and administration expenses, bad debt expense and taxes other than income.

(2) Amounts for 2006 are for Vanguard Predecessor. No per unit calculations were made for this period.

Supplemental Natural Gas and Oil Information (Unaudited)

We are a publicly traded limited liability company focused on the development and exploitation of mature, long-lived natural gas and oil properties in the United States.

Capitalized costs related to natural gas and oil producing activities and related accumulated depletion were as follows at December 31:

	Vanguard	Vanguard Predecessor
	2007	2006
Aggregate capitalized costs relating to natural gas and oil producing activities	$ 135,435,240	$ 128,811,908
Aggregate accumulated depletion	(28,451,891)	(24,128,298)
Net capitalized costs	$ 106,983,349	$ 104,683,610
FAS 143 asset retirement obligations	$ 189,711	$ 418,533

Costs incurred in natural gas and oil producing activities, whether capitalized or expensed, were as follows for the years ended December 31:

	Vanguard	Vanguard Predecessor	
	2007	2006	2005
Property acquisition costs	$ 3,670,561	$ —	$ —
Development costs	12,859,838	37,467,066	37,023,753
Total cost incurred	$ 16,530,399	$ 37,467,066	$ 37,023,753

The table above includes capitalized internal costs incurred in connection with the development of natural gas and oil reserves of $3,880,000 and $1,071,584 in 2006 and 2005, respectively. No internal costs were capitalized in 2007. Additionally, capitalized interest of $75,672, $117,097 and $1,170,240 for the years ended December 31, 2007, 2006 and 2005, respectively, are included in the table above.

In our December 31, 2007 reserve report, the amounts estimated to be spent in 2008, 2009 and 2010 to develop our proved undeveloped reserves are $13.5 million, $13.8 million and $8.5 million, respectively.

Net quantities of proved developed and undeveloped reserves of natural gas and oil and changes in these reserves at December 31, 2007, 2006 and 2005 are presented below. Information in these tables is based on reserve reports prepared by our independent petroleum engineers, Netherland, Sewell & Associates, Inc. for 2007 and 2006 and Schlumberger Data & Consulting Services for 2005.

	Gas (in Mcf)	Oil (in Bbls)
Net proved reserves		
January 1, 2005	73,564,492	38,900
Revisions of previous estimates	31,072,849	431,344
Extensions, discoveries and other	6,842,125	10,937
Production	(3,789,185)	(17,488)
December 31, 2005	107,690,281	463,693
Revisions of previous estimates	(17,529,333)	(106,630)
Extensions, discoveries and other	8,205,425	18,623
Production	(4,181,708)	(32,718)
December 31, 2006	94,184,665	342,968
Revisions of previous estimates	(31,943,375)	798
Extensions, discoveries and other	4,544,443	16,725
Purchases of reserves in place	2,387,113	6,165
Production	(4,044,380)	(30,629)
December 31, 2007	65,128,466	336,027
Proved developed reserves		
December 31, 2005	53,900,263	246,595
December 31, 2006	48,166,327	249,329
December 31, 2007	48,897,929	233,507

There are numerous uncertainties inherent in estimating quantities of proved reserves, projecting future rates of production and projecting the timing of development expenditures, including many factors beyond our control. The reserve data represents only estimates. Reservoir engineering is a subjective process of estimating underground accumulations of natural gas and oil that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretations and judgment. All estimates of proved reserves are determined according to the rules prescribed by the SEC. These rules indicate that the standard of "reasonable certainty" be applied to proved reserve estimates. This concept of reasonable certainty implies that as more technical data becomes available, a positive, or upward, revision is more likely than a negative, or downward, revision. Estimates are subject to revision based upon a number of factors, including reservoir performance, prices, economic conditions and government restrictions. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of that estimate. Reserve estimates are often different from the quantities of natural gas and oil that are ultimately recovered. The meaningfulness of reserve estimates is highly dependent on the accuracy of the assumptions on which they were based. In general, the volume of production from natural gas and oil properties we own declines as reserves are depleted. Except to the extent we conduct successful development activities or acquire additional properties containing proved reserves, or both, our proved reserves will decline as reserves are produced. There have been no major discoveries or other events, favorable or adverse, that may be considered to have caused a significant change in the estimated proved reserves since December 31, 2007, except for the increased reserves associated with the Permian Basin acquisition which is not reflected below due to the acquisition being completed subsequent to December 31, 2007.

Results of operations from producing activities were as follows for the years ended December 31:

	Vanguard	Vanguard Predecessor	
	2007	**2006**	**2005**
Production revenues(1)	$ 33,838,191	$ 35,976,571	$ 30,275,108
Production costs(2)	(7,119,834)	(6,670,542)	(5,856,144)
Depreciation, depletion and amortization	(8,960,524)	(8,511,390)	(6,075,293)
Results of operations from producing activities	$ 17,757,833	$ 20,794,639	$ 18,343,671

(1) Production revenues include realized losses on derivative contracts.

(2) Production cost includes lease operating expenses and production related taxes, including ad valorem and severance taxes.

The standardized measure of discounted future net cash flows relating to our proved natural gas and oil reserves at December 31 is as follows (in thousands):

	Vanguard	Vanguard Predecessor	
	2007	**2006**	**2005**
Future cash inflows	$ 587,639	$ 663,604	$ 1,337,090
Future production costs	(173,485)	(192,520)	(138,912)
Future development costs	(36,842)	(66,906)	(76,945)
Future net cash flows	377,312	404,178	1,121,233
10% annual discount for estimated timing of cash flows	(226,315)	(255,357)	(720,804)
Standardized measure of discounted future net cash flows	$ 150,997	$ 148,821	$ 400,429

For the December 31, 2007 calculations in the preceding table, estimated future cash inflows from estimated future production of proved reserves were computed using year-end prices of $6.79 per MMBtu for natural gas, adjusted by field for energy content, and $92.50 per barrel of oil, adjusted for quality, transportation fees and a regional price differential. We may receive amounts different than the standardized measure of discounted cash flow for a number of reasons, including price changes and the effects of our hedging activities.

The following are the principal sources of change in our standardized measure of discounted future net cash flows (in thousands):

	Year Ended December 31,(1)		
	Vanguard	**Vanguard Predecessor**	
	2007	**2006**	**2005**
Sales and transfers, net of production costs	$ (26,718)	$ (29,306)	$ (24,419)
Net changes in prices and production costs	52,625	(231,630)	125,520
Extensions discoveries and improved recovery, less related costs	10,791	21,110	20,027
Changes in estimated future development costs	18,045	(24,336)	(58,972)
Previously estimated development costs incurred during the period	16,531	37,467	37,024
Revision of previous quantity estimates	(75,071)	(31,726)	144,471
Accretion of discount	14,882	40,043	17,305
Purchases of reserves in place	4,249	—	—
Change in production rates, timing and other	(13,158)	(33,230)	(33,574)
Net change	$ 2,176	$ (251,608)	$ 227,382

(1) This disclosure reflects changes in the standardized measure calculation excluding the effects of hedging activities.

SCHEDULE II

VANGUARD NATURAL RESOURCES, LLC
VALUATION AND QUALIFYING ACCOUNTS

Year Ended December 31, 2007

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Charged to Other Accounts	Balance at End of Period
Allowance for doubtful accounts	$ —	$ 1,007,461	$ —	$ —	$ 1,007,461

There was no allowance for doubtful accounts at December 31, 2005 or 2006.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Vanguard Natural Resources, LLC has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 12th day of May, 2008.

VANGUARD NATURAL RESOURCES, LLC

By /s/ Scott W. Smith

Scott W. Smith
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date	Signature
May 12, 2008	/s/ Scott W. Smith Scott W. Smith President, Chief Executive Officer and Director (Principal Executive Officer)
May 12, 2008	/s/ Richard A. Robert Richard A. Robert Executive Vice President and Chief Financial Officer (Principal Financial Officer)
May 12, 2008	* W. Richard Anderson Director
May 12, 2008	* Thomas M. Blake Director
May 12, 2008	* Bruce W. McCullough Director
May 12, 2008	* John R. McGoldrick Director
May 12, 2008	* Loren Singletary Director
May 12, 2008	* Lasse Wagene Director

* By: /s/ Scott W. Smith
Attorney-in-fact

Vanguard Natural Resources, LLC
EXHIBIT INDEX

Each exhibit identified below is filed as a part of this Report.

Exhibit No.	Exhibit Title	Incorporated by Reference to the Following
3.1	Certificate of Formation of Vanguard Natural Resources, LLC	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
3.2	Second Amended and Restated Limited Liability Company Agreement of Vanguard Natural Resources, LLC (including specimen unit certificate for the units)	Form 8-K, filed November 2, 2007 (File No. 001-33756)
10.1	Amended and Restated Credit Agreement, dated February 14, 2008, by and between Nami Holding Company, LLC, Citibank, N.A., as administrative agent and L/C issuer and the lenders party thereto	Previously filed with our Form 10-K on March 31, 2008
10.2	Vanguard Natural Resources, LLC Long-Term Incentive Plan	Form 8-K, filed October 24, 2007 (File No. 001-33756)
10.3	Form of Vanguard Natural Resources, LLC Long-Term Incentive Plan Phantom Options Grant Agreement	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.4	Vanguard Natural Resources, LLC Class B Unit Plan	Form 8-K, filed October 24, 2007 (File No. 001-33756)
10.5	Form of Vanguard Natural Resources, LLC Class B Unit Plan Restricted Class B Unit Grant	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.6	Management Services Agreement, effective January 5, 2007, by and between Vinland Energy Operations, LLC, Vanguard Natural Gas, LLC, Trust Energy Company, LLC and Ariana Energy, LLC	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.7	Participation Agreement, effective January 5, 2007, by and between Vinland Energy Eastern, LLC, Vanguard Natural Gas, LLC, Trust Energy Company, LLC and Ariana Energy, LLC	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.8	Gathering and Compression Agreement, effective January 5, 2007, by and between Vinland Energy Gathering, LLC, Vinland Energy Eastern, LLC, Vanguard Natural Gas, LLC and Ariana Energy, LLC	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.9	Gathering and Compression Agreement, effective January 5, 2007, by and between Vinland Energy Gathering, LLC, Vinland Energy Eastern, LLC, Vanguard Natural Gas, LLC and Trust Energy Company	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.10	Gathering and Compression Agreement, effective January 5, 2007, by and between Vinland Energy Gathering, LLC and Nami Resources Company, L.L.C.	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.11	Well Services Agreement, effective January 5, 2007, by and between Vinland Energy Operations, LLC, Vanguard Natural Gas, LLC and Ariana Energy, LLC	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.12	Well Services Agreement, effective January 5, 2007, by and between Vinland Energy Operations, LLC, Vanguard Natural Gas, LLC and Trust Energy Company, LLC	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.13	Well Services Agreement, effective January 5, 2007, by and between Vinland Energy Operations, LLC and Nami Resources Company, L.L.C.	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.14	Amended and Restated Operating Agreement by and between Vinland Energy Operations, LLC, Vinland Energy Eastern, LLC and Ariana Energy, LLC, dated October 2, 2007 and effective as of January 5, 2007	Form S-1/A, filed October 22, 2007 (File No. 333-142363)
10.15	Operating Agreement, effective January 5, 2007, by and between Vinland Energy Operations, LLC, Vinland Energy Eastern, LLC and Trust Energy Company, LLC	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.16	Amended and Restated Indemnity Agreement by and between Nami Resources Company, L.L.C., Vinland Energy Eastern, LLC, Trust Energy Company, LLC, Vanguard Natural Gas, LLC and Vanguard Natural Resources, LLC, dated September 11, 2007	Form S-1/A, filed September 18, 2007 (File No. 333-142363)
10.17	Revenue Payment Agreement by and between Nami Resources Company, L.L.C. and Trust Energy Company, dated April 18, 2007 and effective as of January 5, 2007	Form S-1/A, filed August 21, 2007 (File No. 333-142363)
10.18	Gas Supply Agreement, dated April 18, 2007, by and between Nami Resources Company, L.L.C. and Trust Energy Company	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.19	Amended Employment Agreement, dated April 18, 2007, by and between Scott W. Smith, VNR Holdings, LLC and Vanguard Natural Resources, LLC	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.20	Amended Employment Agreement, dated April 18, 2007, by and between	Form S-1/A, filed April 25, 2007 (File No. 333-142363)

	Richard A. Robert, VNR Holdings, LLC and Vanguard Natural Resources, LLC	
10.21	Registration Rights Agreement, dated April 18, 2007, between Vanguard Natural Resources, LLC and the private investors named therein	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.22	Purchase Agreement, dated April 18, 2007, between Vanguard Natural Resources, LLC, Majeed S. Nami and the private investors named therein	Form S-1/A, filed April 25, 2007 (File No. 333-142363)
10.23	Omnibus Agreement, dated October 29, 2007, among Majeed S. Nami, Vanguard Natural Resources, LLC, Vanguard Natural Gas, LLC, Ariana Energy, LLC and Trust Energy Company, LLC.	Form 8-K, filed November 2, 2007 (File No. 001-33756)
10.24	Employment Agreement, dated May 15, 2007, by and between Britt Pence, VNR Holdings, LLC and Vanguard Natural Resources, LLC	Form S-1/A, filed July 5, 2007 (File No. 333-142363)
10.25	Natural Gas Contract, dated May 26, 2003, between Nami Resources Company, Inc. and Osram Sylvania Products, Inc.	Form S-1/A, filed August 21, 2007 (File No. 333-142363)
10.26	Natural Gas Purchase Contract, dated December 16, 2004, between Nami Resources Company, LLC and Dominion Field Services, Inc.	Form S-1/A, filed August 21, 2007 (File No. 333-142363)
10.27	Natural Gas Purchase Contract, dated December 28, 2004, between Nami Resources Company, LLC and Dominion Field Services, Inc.	Form S-1/A, filed August 21, 2007 (File No. 333-142363)
10.28	Director Compensation Agreement	Form S-1/A, filed September 18, 2007 (File No. 333-142363)
10.29	Purchase and Sale Agreement, dated December 21, 2007, among Vanguard Permian, LLC and Apache Corporation	Form 8-K/A, filed February 13, 2008 (File No. 001-33756)
10.30	Amended Purchase and Sale Agreement, dated January 31, 2008, among Vanguard Permian, LLC and Apache Corporation	Form 8-K/A, filed February 4, 2008 (File No. 001-33756)
21.1	List of subsidiaries of Vanguard Natural Resources, LLC	Previously filed with our Form 10-K on March 31, 2008
24.1	Powers of Attorney (contained on the signature page)	Previously filed with our Form 10-K on March 31, 2008
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a — 14 of the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a — 14 of the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

EXHIBIT 31.1

CERTIFICATION

I, Scott W. Smith, certify that:

1. I have reviewed this Annual Report on Form 10-K/A of Vanguard Natural Resources, LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2008

/s/ Scott W. Smith

Scott W. Smith
President and Chief Executive Officer
(Principal Executive Officer)
Vanguard Natural Resources, LLC

EXHIBIT 31.2

CERTIFICATION

I, Richard A. Robert, certify that:

1. I have reviewed this Annual Report on Form 10-K/A of Vanguard Natural Resources, LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2008

/s/ Richard A. Robert

Richard A. Robert
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)
Vanguard Natural Resources, LLC

EXHIBIT 32.1

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
UNDER SECTION 906 OF THE
SARBANES OXLEY ACT OF 2002, 18 U.S.C. § 1350

In connection with the Annual Report on Form 10-K/A of Vanguard Natural Resources, LLC (the “Company”), as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Scott W. Smith, Chief Executive Officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Scott W. Smith
Scott W. Smith
President and Chief Executive Officer
(Principal Executive Officer)

May 12, 2008

EXHIBIT 32.2

CERTIFICATION OF
CHIEF FINANCIAL OFFICER
UNDER SECTION 906 OF THE
SARBANES OXLEY ACT OF 2002, 18 U.S.C. § 1350

In connection with the Annual Report on Form 10-K/A of Vanguard Natural Resources, LLC (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Richard A. Robert, Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard A. Robert
Richard A. Robert
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

May 12, 2008